
BASIC FINANCIAL STATEMENTS

Statement of Net Assets

June 30, 2002

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ 2,025,075	\$ 1,476,370	\$ 3,501,445	\$ 102,686
Investments.....	323	37,869	38,192	123,393
Invested securities lending collateral.....	483,775	95,099	578,874	1,891
Receivables, net:				
Accounts.....	213,132	67,056	280,188	133,271
Taxes.....	667,665	—	667,665	—
Patient and student.....	—	121,576	121,576	—
Student loans.....	8,431	59,589	68,020	—
Loans and notes.....	14,443	457	14,900	—
Assessments.....	—	39,236	39,236	—
Due from Federal government and other grantors.....	544,000	76,293	620,293	—
Internal balances.....	19,568	(19,568)	—	—
Due from component units.....	10,895	—	10,895	—
Inventories.....	44,211	28,022	72,233	134,668
Restricted assets:				
Cash and cash equivalents.....	36,185	183,954	220,139	101,762
Investments.....	115,291	647	115,938	73,233
Student loans receivable.....	—	655	655	—
Other.....	2,497	942	3,439	—
Other current assets.....	15,704	14,331	30,035	7,395
Total current assets.....	4,201,195	2,182,528	6,383,723	678,299
Long-term assets:				
Receivables, net:				
Accounts.....	43,802	6,938	50,740	—
Taxes.....	63,376	—	63,376	—
Student loans.....	2,998	250,392	253,390	—
Loans and notes.....	297,895	93,355	391,250	—
Investments.....	261,335	11,716	273,051	118
Restricted assets:				
Cash and cash equivalents.....	696,110	230,468	926,578	110,069
Investments.....	—	52,571	52,571	149,353
Loans receivable.....	368,588	560,338	928,926	—
Student loans receivable.....	—	50,557	50,557	—
Other.....	5,508	4,856	10,364	17
Other long-term assets.....	915	28,231	29,146	—
Deferred charges.....	6,215	6,319	12,534	331,371
Investment in joint venture.....	—	—	—	10,972
Non-depreciable capital assets.....	3,833,538	500,969	4,334,507	682,259
Depreciable capital assets, net.....	6,344,702	1,704,736	8,049,438	2,453,797
Total long-term assets.....	11,924,982	3,501,446	15,426,428	3,737,956
Total assets.....	16,126,177	5,683,974	21,810,151	4,416,255

The Notes to the Financial Statements are an integral part of this statement.

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities.....	\$ 717,890	\$ 196,072	\$ 913,962	\$ 160,009
Retainages payable.....	6,736	7,044	13,780	—
Tax refunds payable.....	401,549	4,157	405,706	—
Intergovernmental payables.....	266,450	—	266,450	91
Policy claims.....	367,447	30,000	397,447	—
Due to primary government.....	—	—	—	10,895
Deferred revenues and deferred credits.....	166,313	95,183	261,496	221
Deposits.....	—	4,406	4,406	—
Amounts held in custody for others.....	—	3,410	3,410	—
Securities lending collateral.....	483,775	95,099	578,874	1,891
Liabilities payable from restricted assets.....	22,957	68,202	91,159	8,733
Notes payable.....	1,866	30,669	32,535	1,065
General obligation bond anticipation notes payable.....	—	8,400	8,400	—
Revenue bonds anticipation notes payable.....	—	16,400	16,400	—
General obligation bonds payable.....	170,312	8,610	178,922	—
Infrastructure Bank bonds payable.....	20,440	—	20,440	—
Revenue bonds payable.....	—	23,700	23,700	71,835
Limited obligation bonds payable.....	3,575	—	3,575	—
Certificates of participation payable.....	—	1,280	1,280	—
Capital leases payable.....	1,743	6,053	7,796	2,712
Commercial paper notes.....	—	—	—	308,965
Compensated absences payable.....	117,638	52,735	170,373	2,125
Other current liabilities	29,596	17,795	47,391	17,459
Total current liabilities.....	2,778,287	669,215	3,447,502	586,001
Long-term liabilities:				
Accrued liabilities.....	—	564	564	—
Retainages payable.....	53	—	53	—
Intergovernmental payables.....	1,660	—	1,660	—
Policy claims.....	49,680	172,652	222,332	—
Deferred revenues and deferred credits.....	—	—	—	84,366
Notes payable.....	2,532	126,547	129,079	9,840
General obligation bonds payable.....	2,033,817	125,625	2,159,442	—
Tobacco Authority bonds payable.....	902,920	—	902,920	—
Infrastructure Bank bonds payable.....	1,172,606	—	1,172,606	—
Revenue bonds payable.....	—	1,393,682	1,393,682	2,298,402
Limited obligation bonds payable.....	27,022	—	27,022	—
Certificates of participation payable.....	—	16,756	16,756	—
Capital leases payable.....	6,442	40,580	47,022	24,337
Compensated absences payable.....	74,586	45,284	119,870	12,575
Other long-term liabilities.....	25,767	78,868	104,635	36,963
Total long-term liabilities.....	4,297,085	2,000,558	6,297,643	2,466,483
Total liabilities.....	7,075,372	2,669,773	9,745,145	3,052,484

Continued on Next Page

Statement of Net Assets (Continued)

June 30, 2002

(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	Governmental Activities	Business-type Activities	Totals	
NET ASSETS				
Invested in capital assets, net of related debt.....	\$ 7,621,846	\$ 1,551,604	\$ 9,173,450	\$ 492,761
Restricted:				
Expendable:				
Unemployment compensation benefits.....	—	674,721	674,721	—
Education.....	248,871	128,852	377,723	8,771
Health.....	650,632	—	650,632	—
Transportation.....	149,057	—	149,057	—
Capital projects.....	449,375	81,997	531,372	136,794
Debt service.....	110,587	296,959	407,546	117,276
Loan programs.....	339,172	61,193	400,365	—
Waste management.....	135,604	—	135,604	—
Insurance programs.....	137,168	—	137,168	—
Other.....	85,781	50	85,831	56,230
Nonexpendable:				
Education.....	165	47,297	47,462	—
Other.....	1,735	—	1,735	—
Unrestricted.....	(879,188)	171,528	(707,660)	551,939
Total net assets.....	\$ 9,050,805	\$ 3,014,201	\$ 12,065,006	\$ 1,363,771

Statement of Activities

For the Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Functions					
Primary government:					
Governmental activities:					
General government.....	\$ 1,749,351	\$ 1,233,641	\$ 258,833	\$ 3,328	\$ (253,549)
Education.....	920,695	36,370	623,671	399	(260,255)
Health and environment.....	3,888,356	127,656	2,803,244	784	(956,672)
Social services.....	798,409	5,406	615,301	—	(177,702)
Administration of justice.....	693,478	143,136	35,850	520	(513,972)
Resources and economic development.....	221,644	48,555	67,143	19,080	(86,866)
Transportation.....	340,405	149,972	68,440	490,704	368,711
Intergovernmental.....	3,807,548	—	—	—	(3,807,548)
Unallocated interest expense.....	71,883	—	—	—	(71,883)
Total governmental activities.....	12,491,769	1,744,736	4,472,482	514,815	(5,759,736)
Business-type activities:					
Higher education.....	2,256,818	1,024,215	463,233	28,650	(740,720)
Unemployment compensation benefits.....	526,954	266,678	152,447	—	(107,829)
Financing of housing facilities.....	125,422	44,238	94,417	—	13,233
Financing of student loans.....	36,748	34,345	7,058	—	4,655
Medical malpractice insurance.....	78,949	22,718	608	—	(55,623)
Patriots Point development.....	6,717	7,783	192	—	1,258
Insurance claims processing.....	1,467	1,461	—	—	(6)
Higher education institution support.....	717,480	730,712	13,101	—	26,333
Other.....	28,362	26,244	1,744	—	(374)
Total business-type activities.....	3,778,917	2,158,394	732,800	28,650	(859,073)
Total primary government.....	\$ 16,270,686	\$ 3,903,130	\$ 5,205,282	\$ 543,465	\$ (6,618,809)
Component units:					
Public Service Authority.....	\$ 942,631	\$ 976,843	\$ 23,082	\$ —	\$ 57,294
State Ports Authority.....	112,802	101,264	1,517	2,806	(7,215)
Connector 2000 Association, Inc.....	17,112	2,067	1,412	—	(13,633)
Lottery Commission.....	330,634	337,149	61	—	6,576
Other.....	37,694	5	3,456	—	(34,233)
Total component units.....	\$ 1,440,873	\$ 1,417,328	\$ 29,528	\$ 2,806	\$ 8,789

Statement of Activities (Continued)

For the Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets:				
Net (expense) revenue	\$ (5,759,736)	\$ (859,073)	\$ (6,618,809)	\$ 8,789
General revenues:				
Taxes:				
Individual income.....	2,357,050	—	2,357,050	—
Retail sales and use.....	2,788,909	—	2,788,909	—
Other.....	1,211,085	—	1,211,085	—
Total taxes.....	6,357,044	—	6,357,044	—
Unrestricted grants and contributions.....	37,744	—	37,744	—
Unrestricted investment income.....	79,119	—	79,119	—
Tobacco legal settlement.....	88,290	—	88,290	—
Special Items.....	—	(2,571)	(2,571)	(764)
Extraordinary loss on debt extinguishment.....	—	(864)	(864)	—
Extraordinary item—other.....	—	(3,416)	(3,416)	—
Other revenues.....	70,137	—	70,137	—
Transfers—internal activities.....	(862,126)	862,126	—	—
Total general revenues and transfers.....	5,770,208	855,275	6,625,483	(764)
Change in net assets.....	10,472	(3,798)	6,674	8,025
Net assets at beginning of year (restated).....	9,040,333	3,017,999	12,058,332	1,355,746
Net assets at end of year.....	\$ 9,050,805	\$ 3,014,201	\$ 12,065,006	\$ 1,363,771

The Notes to the Financial Statements are an integral part of this statement.

Balance Sheet**GOVERNMENTAL FUNDS****June 30, 2002****(Expressed in Thousands)**

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
ASSETS				
Cash and cash equivalents.....	\$ —	\$ 156,936	\$ 248,451	\$ 158,838
Investments.....	5,634	333	—	—
Invested securities lending collateral.....	62,275	4,977	165,231	62,957
Receivables, net:				
Accounts.....	24,979	102,925	23,982	10,044
Taxes.....	607,450	7,918	—	7,444
Student loans.....	—	—	—	—
Loans and notes.....	15	535	294,521	6,436
Due from Federal government and other grantors.....	12,273	442,039	—	87,030
Due from other funds.....	48,044	39,977	9,408	2,516
Due from component units.....	—	—	—	—
Interfund receivables.....	24,936	3,550	190,903	2,050
Inventories.....	13,178	17,011	—	6,381
Restricted assets:				
Cash and cash equivalents.....	—	—	530,355	201,791
Investments.....	—	—	—	—
Loans receivable.....	—	—	368,588	—
Other.....	—	—	5,509	—
Other assets.....	—	507	—	5,293
Total assets.....	\$ 798,784	\$ 776,708	\$ 1,836,948	\$ 550,780
LIABILITIES AND FUND BALANCES (DEFICITS)				
Liabilities:				
Accounts payable and accrued liabilities.....	\$ 198,885	\$ 291,458	\$ 7,739	\$ 87,801
Retainages payable.....	—	190	—	3,204
Tax refunds payable.....	401,339	—	—	—
Intergovernmental payables.....	44,130	126,005	520	—
Policy claims.....	—	—	—	—
Due to other funds.....	101,890	60,466	1,736	8,888
Interfund payables.....	2,050	6,668	3,500	190,903
Deferred revenues.....	102,538	42,979	405,579	6,250
Securities lending collateral.....	62,275	4,977	165,231	62,957
Other liabilities.....	25,628	19	—	—
Total liabilities.....	938,735	532,762	584,305	360,003
Fund balances (deficits):				
Reserved.....	67,611	737	1,371,276	11,427
Unreserved, designated.....	—	—	—	179,350
Unreserved, undesignated reported in:				
General Fund.....	(207,562)	—	—	—
Special revenue funds.....	—	243,209	(118,633)	—
Permanent funds.....	—	—	—	—
Total fund balances (deficits).....	(139,951)	243,946	1,252,643	190,777
Total liabilities and fund balances (deficits).....	\$ 798,784	\$ 776,708	\$ 1,836,948	\$ 550,780

The Notes to the Financial Statements are an integral part of this statement.

State Tobacco Settlement	Nonmajor Governmental Funds	Total Governmental Funds
\$ 667,879	\$ 580,663	\$ 1,812,767
—	662	6,629
27,223	82,285	404,948
1,523	8,248	171,701
—	108,229	731,041
—	11,429	11,429
—	10,782	312,289
—	2,658	544,000
—	13,453	113,398
—	10,895	10,895
—	43	221,482
50	29	36,649
—	149	732,295
—	115,291	115,291
—	—	368,588
—	2,497	8,006
—	125	5,925
\$ 696,675	\$ 947,438	\$ 5,607,333
\$ 116	\$ 20,300	\$ 606,299
—	3,199	6,593
—	210	401,549
8	94,217	264,880
381	—	381
121	9,241	182,342
—	15,472	218,593
—	9,414	566,760
27,223	82,285	404,948
—	22	25,669
27,849	234,360	2,678,014
—	137,680	1,588,731
—	134,538	313,888
—	—	(207,562)
668,826	440,281	1,233,683
—	579	579
668,826	713,078	2,929,319
\$ 696,675	\$ 947,438	\$ 5,607,333

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2002

(Expressed in Thousands)

Total fund balances—governmental funds..... **\$ 2,929,319**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Certain assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Capital assets:		
Non-depreciable capital assets.....	\$ 3,825,610	
Depreciable capital assets.....	8,812,445	
Accumulated depreciation.....	(2,620,539)	
Total capital assets.....	10,017,516	
Food commodities.....	941	
Total assets.....		10,018,457

Bond issue costs are reported as current expenditures in the funds. However, issue costs are deferred and amortized over the life of the bonds and are included in governmental activities in the Statement of Net Assets.....	6,215
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Certain State revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.....	479,675
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.....	205,963
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Eliminations relating to the consolidation of internal service funds resulted in an amount due from business-type activities to governmental activities in the Statement of Net Assets.....	7,543
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Certain liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable.....	(4,300,095)	
Notes payable.....	(1,258)	
Accrued interest on bonds.....	(38,668)	
Liabilities payable from restricted assets.....	(22,957)	
Capital leases.....	(4,993)	
Retainages payable.....	(53)	
Compensated absences.....	(187,088)	
Intergovernmental payable.....	(3,230)	
Claims.....	(8,352)	
Other.....	(29,673)	
Total long-term liabilities.....		(4,596,367)

Net assets of governmental activities..... **\$ 9,050,805**

Statement of Revenues, Expenditures, and Changes in Fund Balances

GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	General Fund	Departmental General Operating	Local Government Infrastructure	Department of Transportation Special Revenue
Revenues:				
Taxes:				
Individual income.....	\$ 2,338,858	\$ —	\$ 1,982	\$ —
Retail sales and use.....	2,033,122	632	—	—
Other.....	666,115	23,913	19,939	444,668
Licenses, fees, and permits.....	102,335	80,058	54,335	—
Interest and other investment income.....	62,039	1,521	63,523	19,011
Federal.....	102,609	4,011,773	24,238	426,224
Local and private grants.....	877	8,023	—	—
Departmental services.....	409,954	162,160	41,299	15,758
Contributions.....	12,477	12,937	63,274	—
Fines and penalties.....	21,045	38,263	—	—
Tobacco legal settlement.....	600	—	—	—
Other.....	13,230	95,332	—	8,323
Total revenues.....	5,763,261	4,434,612	268,590	913,984
Expenditures:				
Current:				
General government.....	282,301	97,613	901	—
Education.....	303,809	135,795	—	—
Health and environment.....	1,265,853	2,855,405	—	—
Social services.....	93,772	702,983	—	—
Administration of justice.....	530,835	98,027	—	—
Resources and economic development.....	93,214	80,110	391	—
Transportation.....	—	—	15,030	420,354
Capital outlay.....	—	—	—	535,512
Debt service:				
Principal retirement.....	120,902	435	10,865	21,172
Interest and fiscal charges.....	65,936	97	49,356	40,555
Intergovernmental.....	2,698,602	564,995	411,385	69,741
Total expenditures.....	5,455,224	4,535,460	487,928	1,087,334
Excess (deficiency) of revenues over (under) expenditures.....	308,037	(100,848)	(219,338)	(173,350)
Other financing sources (uses):				
Bonds and notes issued.....	150,219	332	371,020	—
Premiums on bonds issued.....	7,283	—	1,777	—
Discounts on bonds issued.....	—	—	(1,461)	—
Capital leases.....	140	—	—	—
Transfers in.....	96,573	160,620	4,010	1,849
Transfers out.....	(963,146)	(40,028)	(479)	(4,971)
Total other financing sources (uses).....	(708,931)	120,924	374,867	(3,122)
Net change in fund balances.....	(400,894)	20,076	155,529	(176,472)
Fund balances at beginning of year (restated).....	260,943	223,870	1,097,114	367,249
Fund balances (deficits) at end of year.....	\$ (139,951)	\$ 243,946	\$ 1,252,643	\$ 190,777

The Notes to the Financial Statements are an integral part of this statement.

State Tobacco Settlement	Nonmajor Governmental Funds	Totals
\$ —	\$ —	\$ 2,340,840
—	737,437	2,771,191
—	89,852	1,244,487
—	33,277	270,005
21,415	27,234	194,743
—	31,882	4,596,726
—	399	9,299
—	9,159	638,330
—	89,739	178,427
—	23,585	82,893
1,612	86,079	88,291
225	4,835	121,945
23,252	1,133,478	12,537,177
88,475	22,388	491,678
—	45,529	485,133
21,426	75,726	4,218,410
—	6,558	803,313
—	15,408	644,270
73	6,415	180,203
—	—	435,384
—	92,076	627,588
—	31,657	185,031
—	70,624	226,568
1,426	784,112	4,530,261
111,400	1,150,493	12,827,839
(88,148)	(17,015)	(290,662)
—	125,000	646,571
—	5,798	14,858
—	—	(1,461)
—	—	140
44,529	40,507	348,088
(19,305)	(179,500)	(1,207,429)
25,224	(8,195)	(199,233)
(62,924)	(25,210)	(489,895)
731,750	738,288	3,419,214
\$ 668,826	\$ 713,078	\$ 2,929,319

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

Net change in fund balances—total governmental funds..... \$ (489,895)

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay.....	\$ 1,033,145	
Depreciation expense.....	(184,065)	
Excess of capital outlay over depreciation expense.....		849,080

Losses on disposals of capital assets are reported as an expense in the Statement of Activities..... (11,140)

Expenses for food commodities in the Statement of Activities do not provide current financial resources and are not reported as expenditures in the governmental funds..... 587

Bond and note proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets. In the current period, proceeds were received from:

Bonds and notes issued.....	(646,571)	
Bond premiums.....	(14,858)	
Bond discounts.....	1,461	
Net bond and note proceeds.....		(659,968)

Bond issuance costs are expenditures in governmental funds, but are deferred assets in the Statement of Net Assets..... 6,228

Certain capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability..... (140)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year, these amounts consist of:

Bond principal retirement.....	181,912	
Note principal retirement.....	345	
Capital lease payments.....	2,653	
Intergovernmental liability payments.....	14,735	
Other liability payments.....	121	
Total long-term debt repayment.....		199,766

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is included in governmental activities in the Statement of Activities..... (39,618)

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities (Continued)

For the Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

Because certain receivables will not be collected within one year after the State's fiscal year ends,
the related revenues are not considered "available" and are deferred in the governmental funds.

Increase in deferred revenues.....	\$	147,334
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Eliminations relating to the consolidation of internal service funds resulted in an increase in expenses
for the business-type activities in the Statement of Activities.....

7,543

Certain items reported in the Statement of Activities do not require the use of current financial
resources and therefore are not reported as expenditures in governmental funds. These
activities consist of:

Net increase in accrued interest related to bonds.....	\$	(344)
Net increase in accrued interest related to notes.....		(9)
Interest accreted on capital appreciation debt.....		(1,349)
Amortization of bond issuance costs.....		(156)
Amortization of bond premiums.....		(431)
Increase in compensated absences payable.....		(1,170)
Increase in retainages payable.....		(53)
Increase in claims and judgments payable.....		(1,634)
Net decrease in other payables.....		5,841
Total additional expenses.....		<u>695</u>

Change in net assets of governmental activities.....

\$ 10,472

Statement of Net Assets

PROPRIETARY FUNDS

June 30, 2002

(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 377,055	\$ 647,896	\$ 15,454
Investments.....	30,266	—	—
Invested securities lending collateral.....	69,118	2,090	699
Receivables, net:			
Accounts.....	37,884	16,989	142
Assessments.....	—	39,236	—
Patient and student.....	24,114	—	—
Student loans.....	149	—	—
Loans and notes.....	52	—	405
Due from Federal government and other grantors.....	71,946	3,360	987
Due from other funds.....	25,955	9	2
Inventories.....	15,700	—	—
Restricted assets:			
Cash and cash equivalents.....	86,904	—	26,902
Investments.....	58	—	—
Student loans receivable.....	577	—	—
Other.....	—	—	80
Other current assets.....	9,674	—	—
Total current assets.....	749,452	709,580	44,671
Long-term assets:			
Investments.....	9,491	—	677
Receivables, net:			
Accounts.....	5,808	—	—
Student loans.....	1,990	—	—
Loans and notes.....	70,506	—	22,849
Interfund receivables.....	—	—	—
Restricted assets:			
Cash and cash equivalents.....	53,493	—	139,963
Investments.....	16	—	4,122
Loans receivable.....	—	—	544,398
Student loans receivable.....	49,786	—	—
Other.....	5	—	4,762
Other long-term assets.....	3,607	—	—
Deferred charges.....	206	—	4,373
Capital assets:			
Land and improvements.....	186,879	—	—
Buildings and improvements.....	2,155,462	—	—
Construction in progress.....	299,361	—	—
Vehicles.....	32,945	—	—
Machinery and equipment.....	365,033	—	309
Works of art and historical treasures.....	16,699	—	—
Intangible assets.....	6,416	—	—
Less: accumulated depreciation.....	(1,136,163)	—	(204)
Total capital assets, net.....	1,926,632	—	105
Total long-term assets.....	2,121,540	—	721,249
Total assets.....	2,870,992	709,580	765,920

The Notes to the Financial Statements are an integral part of this statement.

FUNDS

<div>Education Assistance Authority</div>			INTERNAL SERVICE FUNDS	
	Nonmajor Enterprise	Totals		
\$ 354,362	\$ 81,603	\$ 1,476,370	\$ 212,308	
—	7,603	37,869	—	
8,212	14,980	95,099	78,827	
5,560	6,481	67,056	63,928	
—	—	39,236	—	
—	97,462	121,576	—	
59,440	—	59,589	—	
—	—	457	—	
—	—	76,293	—	
—	2,755	28,721	34,442	
—	12,322	28,022	6,621	
17,567	52,581	183,954	—	
—	589	647	—	
—	78	655	—	
—	862	942	—	
595	4,062	14,331	10,678	
445,736	281,378	2,230,817	406,804	
—	1,548	11,716	255,029	
—	1,130	6,938	112	
248,402	—	250,392	—	
—	—	93,355	—	
—	30,898	30,898	22,055	
—	37,012	230,468	—	
1,813	46,620	52,571	—	
—	15,940	560,338	—	
—	771	50,557	—	
—	89	4,856	—	
—	24,624	28,231	15	
1,740	—	6,319	—	
—	24,344	211,223	7,842	
—	263,841	2,419,303	183,487	
—	31,663	331,024	1,252	
12	1,690	34,647	36,870	
75	141,827	507,244	58,117	
—	6,967	23,666	—	
—	5,890	12,306	8,717	
(26)	(197,315)	(1,333,708)	(135,561)	
61	278,907	2,205,705	160,724	
252,016	437,539	3,532,344	437,935	
697,752	718,917	5,763,161	844,739	

Continued on Next Page

Statement of Net Assets

PROPRIETARY FUNDS (Continued)

June 30, 2002

(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities.....	\$ 98,251	\$ 14,564	\$ 6,361
Retainages payable.....	6,011	—	—
Tax refund payable.....	—	4,157	—
Policy claims.....	—	—	—
Due to other funds.....	8,116	14,048	—
Deferred revenues.....	81,757	—	—
Deposits.....	4,406	—	—
Amounts held in custody for others.....	3,410	—	—
Securities lending collateral.....	69,118	2,090	699
Liabilities payable from restricted assets.....	—	—	20,212
General obligation bond anticipation notes payable.....	8,400	—	—
Notes payable.....	2,724	—	—
Revenue bond anticipation notes payable.....	16,400	—	—
General obligation bonds payable.....	8,610	—	—
Revenue bonds payable.....	12,666	—	6,770
Limited obligation bonds payable.....	—	—	—
Certificates of participation payable.....	—	—	—
Capital leases payable.....	2,514	—	—
Compensated absences payable.....	38,887	—	280
Other current liabilities	1,313	—	1
Total current liabilities.....	<u>362,583</u>	<u>34,859</u>	<u>34,323</u>
Long-term liabilities:			
Accrued liabilities.....	564	—	—
Policy claims.....	—	—	—
Interfund payables.....	29,105	—	—
Notes payable.....	15,969	—	—
General obligation bonds payable.....	125,625	—	—
Revenue bonds payable.....	255,609	—	519,021
Limited obligation bonds payable.....	—	—	—
Certificates of participation payable.....	—	—	—
Capital leases payable.....	32,366	—	—
Compensated absences payable.....	43,641	—	284
Other long-term liabilities.....	49,239	—	—
Total long-term liabilities.....	<u>552,118</u>	<u>—</u>	<u>519,305</u>
Total liabilities.....	<u>914,701</u>	<u>34,859</u>	<u>553,628</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	1,458,934	—	105
Restricted:			
Expendable:			
Unemployment compensation benefits.....	—	674,721	—
Education.....	107,526	—	—
Capital projects.....	81,797	—	—
Debt service.....	9,796	—	178,599
Loan programs.....	—	—	33,501
Insurance programs.....	—	—	—
Other.....	—	—	—
Nonexpendable:			
Education.....	28,396	—	—
Unrestricted.....	269,842	—	87
Total net assets.....	<u>\$ 1,956,291</u>	<u>\$ 674,721</u>	<u>\$ 212,292</u>

Adjustment in Higher Education Fund related to consolidation of internal service funds

Net assets of business-type activities.....

The Notes to the Financial Statements are an integral part of this statement.

FUNDS

Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
\$ 22,357	\$ 47,682	\$ 189,215	\$ 20,666
—	1,033	7,044	143
—	—	4,157	—
—	30,000	30,000	364,316
47	8,026	30,237	1,854
—	13,426	95,183	79,228
—	—	4,406	—
—	—	3,410	—
8,212	14,980	95,099	78,827
—	47,990	68,202	—
—	—	8,400	—
—	27,945	30,669	1,485
—	—	16,400	—
—	—	8,610	—
3,400	864	23,700	—
—	—	—	3,575
—	1,280	1,280	—
—	3,539	6,053	473
109	13,459	52,735	2,925
10,872	5,609	17,795	21
<u>44,997</u>	<u>215,833</u>	<u>692,595</u>	<u>553,513</u>
—	—	564	—
—	172,652	172,652	44,078
—	19,159	48,264	7,578
—	110,578	126,547	1,655
—	—	125,625	—
502,098	116,954	1,393,682	—
—	—	—	27,022
—	16,756	16,756	—
—	8,214	40,580	2,719
—	1,359	45,284	2,211
<u>27,178</u>	<u>2,451</u>	<u>78,868</u>	<u>—</u>
<u>529,276</u>	<u>448,123</u>	<u>2,048,822</u>	<u>85,263</u>
<u>574,273</u>	<u>663,956</u>	<u>2,741,417</u>	<u>638,776</u>
61	92,504	1,551,604	124,119
—	—	674,721	—
—	21,326	128,852	—
—	200	81,997	—
94,693	13,871	296,959	—
27,692	—	61,193	20,000
—	—	—	137,168
—	50	50	—
—	18,901	47,297	165
1,033	(91,891)	179,071	(75,489)
<u>\$ 123,479</u>	<u>\$ 54,961</u>	<u>3,021,744</u>	<u>\$ 205,963</u>
		(7,543)	
		<u>\$ 3,014,201</u>	

Statement of Revenues, Expenses, and Changes in Fund Net Assets

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Operating revenues:			
Assessments.....	\$ —	\$ 179,755	\$ —
Charges for services.....	529,421	—	6,383
Contributions.....	—	—	—
Interest and other investment income.....	—	472	44,253
Licenses, fees, and permits.....	—	—	—
Operating revenues pledged for revenue bonds.....	146,680	—	—
Federal operating grants and contracts.....	361,133	177,561	—
State operating grants and contracts.....	84,239	—	—
Local/private operating grants and contracts.....	52,781	—	—
Other operating revenues.....	138,251	18,830	—
Total operating revenues.....	1,312,505	376,618	50,636
Operating expenses:			
General operations and administration.....	2,037,636	69	8,500
Benefits and claims.....	—	526,886	—
Interest.....	—	—	30,943
Depreciation and amortization.....	93,520	—	293
Scholarships and fellowships.....	96,345	—	—
Other operating expenses.....	357	—	2,069
Total operating expenses.....	2,227,858	526,955	41,805
Operating income (loss).....	(915,353)	(150,337)	8,831
Nonoperating revenues (expenses):			
Federal and local government appropriations.....	52,099	—	—
Interest income.....	20,331	42,507	—
Contributions.....	71,243	—	—
Federal grants and contracts.....	10,734	—	88,019
Local/private grants and contracts.....	6,271	—	—
Interest expense.....	(21,478)	—	—
Other nonoperating revenues (expenses).....	13,520	—	(83,617)
Total nonoperating revenues (expenses).....	152,720	42,507	4,402
Income (loss) before other revenues, expenses, losses, and transfers.....	(762,633)	(107,830)	13,233
Capital contributions.....	—	—	—
Federal capital grants and contracts.....	10,634	—	—
Local/private capital grants and contracts.....	17,886	—	—
Private gifts for endowment purposes.....	938	—	—
Extraordinary loss on early extinguishment of debt.....	—	—	(289)
Other extraordinary item.....	(1,266)	—	—
Special items.....	—	—	—
Transfers in.....	923,919	67	—
Transfers out.....	(35,204)	(13,099)	(177)
Change in net assets.....	154,274	(120,862)	12,767
Net assets at beginning of year (restated).....	1,802,017	795,583	199,525
Net assets at end of year.....	\$ 1,956,291	\$ 674,721	\$ 212,292
Adjustment in Higher Education Fund related to consolidation of internal service funds.....			
Change in net assets of business-type activities.....			

The Notes to the Financial Statements are an integral part of this statement.

FUNDS

Education Assistance Authority	Nonmajor Enterprise	Totals	INTERNAL SERVICE FUNDS
\$ —	\$ —	\$ 179,755	\$ —
34,345	254,362	824,511	1,296,856
—	—	—	655
7,058	(4,461)	47,322	44
—	—	—	3
—	509,664	656,344	—
—	—	538,694	—
—	—	84,239	—
—	—	52,781	—
—	29,571	186,652	—
41,403	789,136	2,570,298	1,297,558
19,337	715,127	2,780,669	309,916
—	78,365	605,251	1,029,009
13,166	—	44,109	—
157	21,917	115,887	14,974
—	—	96,345	—
1,392	2,228	6,046	2,579
34,052	817,637	3,648,307	1,356,478
7,351	(28,501)	(1,078,009)	(58,920)
—	—	52,099	—
—	4,454	67,292	26,654
—	4,297	75,540	—
—	—	98,753	—
—	830	7,101	—
—	(8,773)	(30,251)	(2,007)
(2,696)	(1,915)	(74,708)	148
(2,696)	(1,107)	195,826	24,795
4,655	(29,608)	(882,183)	(34,125)
—	—	—	287
—	—	10,634	—
—	14	17,900	—
—	910	1,848	—
—	(575)	(864)	—
—	(2,150)	(3,416)	—
—	(2,571)	(2,571)	—
—	20	924,006	4,098
—	(13,129)	(61,609)	(9,878)
4,655	(47,089)	3,745	(39,618)
118,824	102,050		245,581
\$ 123,479	\$ 54,961		\$ 205,963
		(7,543)	
		\$ (3,798)	

Statement of Cash Flows

PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2002

(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Cash flows from operating activities:			
Receipts from customers, patients, and third-party payers.....	\$ 784,698	\$ —	\$ —
Assessments received.....	—	178,328	—
Grants received.....	505,846	200,658	4,905
Receipts from collection of loans and notes.....	30,360	—	101,394
Internal activity - payments from other funds.....	—	—	—
Other operating cash receipts.....	23,754	2,475	5,585
Claims and benefits paid.....	—	(522,442)	(1,310)
Payments to suppliers for goods and services.....	(664,737)	—	(5,094)
Payments to employees.....	(1,407,636)	—	(4,708)
Payments for scholarships and fellowships.....	(95,732)	—	—
Loans issued to students.....	(30,805)	—	—
Program loans issued.....	—	—	(91,858)
Internal activity - payments to other funds.....	—	—	—
Other operating cash payments.....	(9,170)	(52)	—
Net cash provided by (used in) operating activities.....	(863,422)	(141,033)	8,914
Cash flows from noncapital financing activities:			
State, county and local appropriations.....	48,307	—	—
Funds held for others.....	(3,152)	—	—
Principal payments received from other funds.....	—	—	—
Principal payments made to other funds.....	(1,251)	—	—
Receipt of interest from other funds.....	—	—	—
Interest payments made to other funds.....	(2,224)	—	—
Loans received from other funds.....	—	—	—
Loans made to other funds.....	—	—	—
Proceeds from sale of revenue bonds.....	—	—	63,455
Principal payments on revenue bonds.....	—	—	(43,320)
Proceeds from issuance of noncapital debt.....	—	—	—
Principal paid on noncapital debt.....	(203)	—	—
Payments of other liability.....	—	—	—
Interest payments on noncapital debt.....	(402)	—	(30,373)
Payment of bond issuance costs.....	—	—	(664)
Gifts and grants for other than capital purposes.....	135,654	—	—
Federal revenue.....	—	—	87,665
Payments from Federal grants.....	—	—	(83,616)
Other cash receipts.....	7,202	393	—
Other cash payments.....	(2,199)	—	—
Operating transfers in.....	923,919	67	—
Operating transfers out.....	(35,204)	(13,099)	(177)
Net cash provided by (used in) noncapital financing activities.....	1,070,447	(12,639)	(7,030)
Cash flows from capital and related financing activities:			
Capital appropriations.....	46,354	—	—
Acquisition of capital assets.....	(255,446)	—	(7)
Principal payments on notes payable.....	—	—	—
Principal payments on limited obligation bonds.....	—	—	—
Proceeds from issuance of capital debt.....	81,285	—	—
Principal paid on capital debt and lease.....	(45,067)	—	—
Interest payments on capital debt.....	(20,948)	—	—
Payment of agent and broker fees.....	—	—	—
Proceeds from sale or disposal of capital assets.....	15,193	—	—
Capital grants and gifts received.....	24,359	—	—
Other cash payments.....	(96)	—	—
Net cash used in capital and related financing activities.....	(154,366)	—	(7)

The Notes to the Financial Statements are an integral part of this statement.

FUNDS**INTERNAL
SERVICE
FUNDS**

Education Assistance Authority	Nonmajor Enterprise	Totals	
\$ 37,514	\$ 728,809	\$ 1,551,021	\$ 695,466
—	98,442	276,770	—
—	800	712,209	—
424,907	—	556,661	—
—	—	—	613,711
—	31,651	63,465	11,265
—	(128,300)	(652,052)	(992,997)
(19,808)	(366,306)	(1,055,945)	(294,690)
(1,598)	(299,951)	(1,713,893)	(36,318)
—	—	(95,732)	—
—	—	(30,805)	—
(484,270)	—	(576,128)	—
—	—	—	(4,062)
—	(4,682)	(13,904)	(2,024)
(43,255)	60,463	(978,333)	(9,649)
—	—	48,307	—
—	(451)	(3,603)	—
—	1,251	1,251	9,773
—	(1,330)	(2,581)	(1,000)
—	2,224	2,224	1,778
—	(1,351)	(3,575)	—
—	—	—	700
—	—	—	(9,561)
117,500	—	180,955	—
(38,465)	—	(81,785)	—
—	22,075	22,075	—
—	(27,648)	(27,851)	—
—	(896)	(896)	—
(14,995)	(5,266)	(51,036)	—
(690)	—	(1,354)	—
—	2,451	138,105	—
—	—	87,665	—
—	—	(83,616)	—
—	187	7,782	—
—	(35)	(2,234)	—
—	20	924,006	4,098
—	(13,129)	(61,609)	(9,878)
63,350	(21,898)	1,092,230	(4,090)
—	—	46,354	—
(9)	(51,182)	(306,644)	(6,280)
—	(2)	(2)	(2,916)
—	—	—	(3,425)
—	108,560	189,845	—
—	(114,135)	(159,202)	(320)
—	(11,492)	(32,440)	(2,007)
—	(198)	(198)	—
—	1,001	16,194	52
—	14	24,373	—
—	—	(96)	—
(9)	(67,434)	(221,816)	(14,896)

Continued on Next Page

Statement of Cash Flows

PROPRIETARY FUNDS (Continued)

For the Fiscal Year Ended June 30, 2002

(Expressed in Thousands)

	ENTERPRISE		
	Higher Education	Unemployment Compensation	Housing Authority
Cash flows from investing activities:			
Proceeds from sales and maturities of investments.....	\$ 43,049	\$ —	\$ 16,387
Purchase of investments	(59,865)	—	—
Interest and dividends on investments.....	21,905	44,631	8,203
Collection of escrow payments from borrower.....	—	—	—
Net cash provided by investing activities.....	5,089	44,631	24,590
Net increase (decrease) in cash and cash equivalents.....	57,748	(109,041)	26,467
Cash and cash equivalents at beginning of year	459,704	756,937	155,852
Cash and cash equivalents at end of year.....	\$ 517,452	\$ 647,896	\$ 182,319
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (915,353)	\$ (150,337)	\$ 8,831
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	93,520	—	293
Provision for bad debts.....	532	—	—
Net increase in the fair value of investments.....	—	—	—
Realized gains and losses on investments.....	—	—	—
Issuance of loans and notes.....	—	—	(91,858)
Collection of loans and notes.....	—	—	62,657
Interest payments reclassified as noncapital financing activities.....	—	—	30,943
Interest and dividends on investments and interfund loans.....	—	—	(6,360)
Amounts received for payment of claims.....	—	—	—
Payment of claims.....	—	—	—
Net gain on disposal of equipment.....	—	—	—
Other nonoperating revenues.....	—	—	—
Other nonoperating expenses.....	—	—	—
Other.....	(6,168)	—	(206)
Change in assets—decreases (increases):			
Accounts receivable, net.....	(41,923)	(1,695)	2,948
Assessments receivable, net.....	—	(1,440)	—
Loans receivable.....	(1,988)	—	—
Due from Federal government and other grantors.....	—	7,934	—
Due from other funds.....	—	(9)	—
Inventories.....	—	—	—
Other assets.....	(1,660)	—	36
Change in liabilities—increases (decreases):			
Accounts payable and accrued liabilities.....	(1,834)	4,500	734
Retainages payable.....	—	—	—
Policy claims.....	—	—	—
Due to other funds.....	—	14	—
Deferred revenues	5,192	—	—
Deposits.....	1,499	—	—
Liabilities payable from restricted assets	—	—	881
Compensated absences payable	5,024	—	—
Other liabilities.....	(263)	—	15
Net cash provided by (used in) operating activities.....	\$ (863,422)	\$ (141,033)	\$ 8,914
Noncash capital, investing, and financing activities:			
Acquisition of capital assets through:			
Assumption of liabilities.....	\$ 593	\$ —	\$ —
Transfers from other funds.....	—	—	—
Donations.....	4,391	—	—
Disposal of capital assets.....	(352)	—	—
Transfer of capital assets to other funds.....	—	—	—
Assignment of Perkins Loans.....	29	—	—
Increase (decrease) in fair value of investments.....	(4,192)	—	—
Accrual of arbitrage expense.....	—	—	—
Long-term debt forgiven.....	—	—	—
Assumption of debt.....	—	—	—
Gifts in kind.....	—	—	—
Total noncash capital, investing, and financing activities.....	\$ 469	\$ —	\$ —

The Notes to the Financial Statements are an integral part of this statement.

FUNDS**INTERNAL
SERVICE
FUNDS**

Education Assistance Authority	Nonmajor Enterprise	Totals	
\$ 13,892	\$ 55,877	\$ 129,205	\$ 193,426
—	(55,425)	(115,290)	(179,302)
7,069	9,146	90,954	23,781
—	1,724	1,724	—
20,961	11,322	106,593	37,905
41,047	(17,547)	(1,326)	9,270
330,882	188,743	1,892,118	203,038
\$ 371,929	\$ 171,196	\$ 1,890,792	\$ 212,308
\$ 7,351	\$ (28,501)	\$ (1,078,009)	\$ (58,920)
157	21,917	115,887	14,974
—	40,671	41,203	—
(416)	—	(416)	—
—	4,765	4,765	—
(502,706)	—	(594,564)	—
437,683	—	500,340	—
13,165	9,061	53,169	—
(6,643)	(3,729)	(16,732)	—
—	96,981	96,981	—
—	(99,686)	(99,686)	—
—	—	—	106
—	6,205	6,205	1,907
—	(5,000)	(5,000)	(2,002)
—	389	(5,985)	(29)
(55)	(39,511)	(80,236)	(8,019)
—	—	(1,440)	—
2,806	—	818	—
—	—	7,934	—
—	2,038	2,029	(1,739)
—	(161)	(161)	678
(575)	1,959	(240)	(8,109)
5,964	103	9,467	1,607
—	—	—	(116)
—	49,751	49,751	42,005
—	1,154	1,168	(5,760)
—	4,028	9,220	13,636
—	—	1,499	—
—	—	881	—
14	(539)	4,499	112
—	(1,432)	(1,680)	20
\$ (43,255)	\$ 60,463	\$ (978,333)	\$ (9,649)
\$ —	\$ 1,021	\$ 1,614	\$ —
—	—	—	147
—	—	4,391	—
—	7,591	7,239	—
—	—	—	(147)
—	—	29	—
—	(2,881)	(7,073)	131
(956)	—	(956)	—
—	7,090	7,090	631
—	(43)	(43)	—
—	80	80	—
\$ (956)	\$ 12,858	\$ 12,371	\$ 762

Statement of Fiduciary Net Assets

FIDUCIARY FUNDS

June 30, 2002

(Expressed in Thousands)

	Pension Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust	Agency
ASSETS				
Cash and cash equivalents.....	\$ 2,606,104	\$ 747,842	\$ 77,278	\$ 162,197
Receivables, net:				
Accounts.....	—	—	177	9,535
Contributions.....	116,475	—	—	—
Employer long-term.....	2,108	—	—	—
Participants.....	—	—	27,351	—
Accrued interest.....	189,269	589	447	1,194
Unsettled investment sales.....	105,660	—	326	—
Taxes.....	—	—	—	3,137
Total receivables.....	413,512	589	28,301	13,866
Due from other funds.....	18,710	—	—	52,025
Investments, at fair value:				
United States government securities.....	2,269,991	—	—	250
United States government agencies and government-insured securities.....	2,127,008	135,094	—	—
Corporate bonds.....	5,345,833	92,068	—	—
Financial and other.....	2,918,690	284,403	21,552	21,257
Equities.....	5,558,056	—	—	—
Total investments.....	18,219,578	511,565	21,552	21,507
Securities held in lieu of surety bonds.....	—	—	—	370,083
Invested securities lending collateral.....	3,175,415	84,531	15,593	27,970
Capital assets, net	4,171	—	4,543	—
Other assets.....	151	—	—	—
Total assets.....	24,437,641	1,344,527	147,267	647,648
LIABILITIES				
Accounts payable—unsettled investment purchases.....	42,143	—	319	—
Due to other funds.....	21,853	—	—	11,010
Accounts payable and accrued liabilities.....	6,418	749	40	8,746
Tax refunds payable.....	—	—	—	44
Intergovernmental payables.....	—	—	—	3,075
Tuition benefits payable.....	—	—	87,735	—
Deposits.....	—	—	—	733
Amounts held in custody for others.....	—	—	—	596,070
Deferred retirement benefits.....	229,590	—	—	—
Securities lending collateral.....	3,175,415	84,531	15,593	27,970
Total liabilities.....	3,475,419	85,280	103,687	647,648
NET ASSETS				
Held in trust for:				
Pension benefits.....	20,962,222	—	—	—
External investment pool participants.....	—	1,259,247	—	—
Other purposes.....	—	—	43,580	—
Total net assets.....	\$ 20,962,222	\$ 1,259,247	\$ 43,580	\$ —

The Notes to the Financial Statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets

FIDUCIARY FUNDS

For the Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	Pension Trust	Investment Trust Local Government Investment Pool	Private-Purpose Trust
Additions:			
Charges for services.....	\$ —	\$ —	\$ 65
Licenses, fees, and permits.....	—	—	386
Contributions:			
Employer.....	608,527	—	—
Employee.....	472,490	—	—
Transfers from other retirement systems.....	2,222	—	—
Deposits from pool participants.....	—	4,599,578	—
Tuition plan deposits.....	—	—	42,445
Other contributions.....	—	7,258	—
Total contributions.....	1,083,239	4,606,836	42,445
Investment income:			
Interest income.....	196,416	33,930	3,036
Securities lending income.....	57,538	1,121	—
Total investment income.....	253,954	35,051	3,036
Less investment expense:			
Investment expense.....	14,559	—	—
Securities lending expense.....	48,613	1,060	—
Net investment income.....	190,782	33,991	3,036
Transfers in.....	3,233	—	—
Capital contributions.....	—	—	146
Total additions.....	1,277,254	4,640,827	46,078
Deductions:			
Regular retirement benefits.....	1,083,057	—	—
Supplemental retirement benefits.....	3,233	—	—
Deferred retirement benefits.....	193,283	—	—
Refunds of retirement contributions to members.....	75,303	—	—
Group life insurance claims.....	15,119	—	—
Accidental death benefits.....	858	—	—
Withdrawals, pool participants.....	—	4,551,088	—
Distributions to pool participants.....	—	32,050	—
Tuition plan disbursements.....	—	—	33,505
Depreciation.....	118	—	61
Administrative expense.....	14,326	226	46
Payments in accordance with trust agreements.....	—	—	2,893
Transfers to other retirement systems.....	2,222	—	—
Transfers out.....	144	—	365
Total deductions.....	1,387,663	4,583,364	36,870
Change in net assets.....	(110,409)	57,463	9,208
Net assets at beginning of year (restated).....	21,072,631	1,201,784	34,372
Net assets at end of year.....	\$ 20,962,222	\$ 1,259,247	\$ 43,580

The Notes to the Financial Statements are an integral part of this statement.

Statement of Net Assets

DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2002

(Expressed in Thousands)

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Lottery Commission	Nonmajor Component Units	Totals
ASSETS						
Current assets:						
Cash and cash equivalents.....	\$ 70,473	\$ 13,248	\$ 1,483	\$ 7,517	\$ 9,965	\$ 102,686
Investments.....	122,645	—	—	—	748	123,393
Invested securities lending collateral.....	—	—	—	—	1,891	1,891
Accounts receivable, net	97,090	16,079	—	19,873	229	133,271
Inventories.....	129,981	2,790	—	1,897	—	134,668
Restricted assets:						
Cash and cash equivalents.....	98,268	—	3,172	322	—	101,762
Investments.....	73,233	—	—	—	—	73,233
Other current assets.....	1,759	5,241	159	236	—	7,395
Total current assets.....	593,449	37,358	4,814	29,845	12,833	678,299
Long-term assets:						
Investments.....	—	—	—	—	118	118
Restricted assets:						
Cash and cash equivalents.....	37,474	67,190	5,405	—	—	110,069
Investments.....	123,682	5,923	19,748	—	—	149,353
Other.....	—	—	17	—	—	17
Deferred charges.....	324,858	1,829	4,684	—	—	331,371
Investment in joint venture.....	10,972	—	—	—	—	10,972
Non-depreciable capital assets.....	498,482	183,777	—	—	—	682,259
Depreciable capital assets, net.....	2,014,284	237,833	184,809	16,843	28	2,453,797
Total long-term assets.....	3,009,752	496,552	214,663	16,843	146	3,737,956
Total assets.....	3,603,201	533,910	219,477	46,688	12,979	4,416,255

The Notes to the Financial Statements are an integral part of this statement.

	Public Service Authority	State Ports Authority	Connector 2000 Association, Inc.	Lottery Commission	Nonmajor Component Units	Totals
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities.....	\$ 134,568	\$ 6,475	\$ 176	\$ 18,073	\$ 717	\$ 160,009
Intergovernmental payables.....	—	—	—	—	91	91
Due to primary government.....	—	—	—	10,895	—	10,895
Deferred revenues and deferred credits.....	—	—	—	221	—	221
Securities lending collateral.....	—	—	—	—	1,891	1,891
Liabilities payable from restricted assets.....	—	5,870	2,863	—	—	8,733
Notes payable.....	—	201	—	864	—	1,065
Revenue bonds payable.....	69,160	2,675	—	—	—	71,835
Capital leases payable.....	2,654	58	—	—	—	2,712
Commercial paper notes.....	308,965	—	—	—	—	308,965
Compensated absences payable.....	—	2,051	—	—	74	2,125
Other current liabilities.....	17,459	—	—	—	—	17,459
Total current liabilities.....	532,806	17,330	3,039	30,053	2,773	586,001
Long-term liabilities:						
Deferred revenues and deferred credits.....	84,366	—	—	—	—	84,366
Notes payable.....	—	115	—	9,725	—	9,840
Revenue bonds payable.....	1,920,127	146,297	231,978	—	—	2,298,402
Capital leases payable.....	24,278	59	—	—	—	24,337
Compensated absences payable.....	12,193	—	—	334	48	12,575
Other long-term liabilities.....	36,963	—	—	—	—	36,963
Total long-term liabilities.....	2,077,927	146,471	231,978	10,059	48	2,466,483
Total liabilities.....	2,610,733	163,801	235,017	40,112	2,821	3,052,484
NET ASSETS (DEFICITS)						
Invested in capital assets, net of related debt.	231,233	269,939	(14,693)	6,254	28	492,761
Restricted, expendable:						
Education.....	—	—	—	—	8,771	8,771
Capital projects.....	64,181	67,190	5,423	—	—	136,794
Debt service.....	111,043	5,923	310	—	—	117,276
Other.....	55,654	—	—	322	254	56,230
Unrestricted.....	530,357	27,057	(6,580)	—	1,105	551,939
Total net assets (deficit).....	\$ 992,468	\$ 370,109	\$ (15,540)	\$ 6,576	\$ 10,158	\$ 1,363,771

Statement of Activities

DISCRETELY PRESENTED COMPONENT UNITS

For the Fiscal Year Ended June 30, 2002

(Expressed in Thousands)

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Public Service Authority.....	\$ 942,631	\$ 976,843	\$ 23,082	\$ —
State Ports Authority.....	112,802	101,264	1,517	2,806
Connector 2000 Association, Inc.....	17,112	2,067	1,412	—
Lottery Commission.....	330,634	337,149	61	—
Nonmajor component units.....	37,694	5	3,456	—
Totals.....	<u>\$ 1,440,873</u>	<u>\$ 1,417,328</u>	<u>\$ 29,528</u>	<u>\$ 2,806</u>

The Notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue	<u>General Revenue</u> Special Item	Net Assets (Deficit) Beginning of Year (Restated)	Net Assets (Deficit) End of Year
\$ 57,294	\$ —	\$ 935,174	\$ 992,468
(7,215)	—	377,324	370,109
(13,633)	(764)	(1,143)	(15,540)
6,576	—	—	6,576
(34,233)	—	44,391	10,158
<u>\$ 8,789</u>	<u>\$ (764)</u>	<u>\$ 1,355,746</u>	<u>\$ 1,363,771</u>

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Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Scope of Reporting Entity

The South Carolina General Assembly (an elected legislative body) and several elected executives govern the State of South Carolina. The accompanying financial statements present the activities of the State of South Carolina's primary government and its component units.

Component units are legally separate organizations for which the State is financially accountable. Blended component units, although legally separate from the State, are part of the State's operations in substance. Accordingly, the State presents them as funds in its fund financial statements and as activities in its government-wide financial statements. In contrast, the State excludes its discretely presented component units from its fund financial statements and it reports the discretely presented component units separately in its government-wide financial statements.

As explained more fully below, the State's primary government and its component units include various State funds, agencies, departments, institutions, authorities, and other organizations.

Primary Government

The State's primary government includes all constitutional offices, departments, agencies, commissions, and authorities unless otherwise noted below. Most of these have executives or boards appointed by the Governor, the General Assembly, or a combination thereof. These entities are financially accountable to, and fiscally dependent on, the State.

Although they operate somewhat autonomously, the entities listed below are included in the State's primary government because they lack full corporate powers.

Fiscal year ended June 30, 2002:

- State Housing Finance and Development Authority
- South Carolina Education Assistance Authority
- Jobs-Economic Development Authority
- Patriots Point Development Authority

Fiscal year ended December 31, 2001:

- The Public Railways Division of the Department of Commerce

The State's five retirement systems are part of the State's primary government. The State Budget and Control Board, which consists of five elected officials, serves as trustee of the systems. The State Treasurer is custodian of the funds.

The State reports ten State-supported universities and sixteen area technical colleges

within its Higher Education Fund, part of the primary government. Although the universities and colleges operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and the General Assembly appoint most of their boards and budget a significant portion of their funds.

The accompanying financial statements exclude the related foundations listed in Note 21 because the State does not significantly influence operations of the related foundations nor are the related foundations accountable to the State for fiscal matters.

Blended Component Units

Unless otherwise indicated below, the blended component units have fiscal years ended June 30, and the accompanying financial statements include component unit financial information for the fiscal year ended June 30, 2002.

Tobacco Settlement Revenue Management Authority

The Tobacco Settlement Revenue Management Authority, a blended component unit accounted for as a governmental fund, commenced operations in August 2000. Its creation was in accordance with an act of the General Assembly that resulted from South Carolina's participation in a settlement (the Master Settlement Agreement or MSA) that arose out of litigation that a group of state governments brought against the tobacco industry. The legally separate Authority's primary purposes are (a) to receive all receipts due to South Carolina under the MSA after June 30, 2001, and (b) to issue the Authority's bonds payable solely from, and secured solely by, those receipts. The Authority's governing board is composed of the Governor or his designee, the State Treasurer, the Comptroller General, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee. The State receives the funding from the bond issuances, except in the event that the Authority issues bonds expressly to refund its outstanding bonds.

Governor's School for the Arts Foundation, Inc.

The State's internal service funds include the Governor's School for the Arts Foundation, Inc., a blended component unit. The Foundation exists solely to support the South Carolina Governor's School for the Arts and Humanities.

Blended Component Units Associated with the Higher Education Fund

The State's nonmajor enterprise funds include the following blended component units, all of which are associated with the Higher Education Fund, a major enterprise fund:

The Citadel Trust, Inc., was formed for the purpose of investing funds in order to provide scholarship and other financial assistance or support to the Citadel.

The *Clemson Research Facilities Corporation* was organized to construct research facilities and to finance the related costs on behalf of Clemson University.

Notes to the Financial Statements

The *Pharmaceutical Education and Development Foundation (PEDF)* promotes educational, research, clinical, and other facilities and programs of the Medical University of South Carolina's College of Pharmacy. PEDF is a nongovernmental component unit.

The *Medical University Hospital Authority* (the Authority) was created to manage and operate the Medical University of South Carolina's hospitals and clinics. The legislation establishing the Authority requires that the members of the Medical University's Board of Trustees also constitute the Authority's Board of Trustees.

The *Medical University Facilities Corporation* was established to obtain financing for the Medical University of South Carolina to purchase land, an office building, and a parking garage.

The *University of South Carolina Trust (the Trust)* operates exclusively for the benefit of the University's School of Medicine to augment and aid education, research, and service in the field of health sciences. The Trust's fiscal year ends December 31, and the accompanying financial statements include the Trust's financial information for the fiscal year ended December 31, 2001.

University Medical Associates delivers inpatient and outpatient professional services for the benefit of the Medical University of South Carolina. It bills, collects, and administers all clinical income generated by its participating physicians.

Obtaining More Information about Blended Component Units

One may obtain complete financial statements for the above blended component units from the following administrative offices:

South Carolina Tobacco Settlement
Management Revenue Authority
Post Office Box 11778
Columbia, South Carolina 29211

Governor's School for the Arts
Foundation, Inc.
15 University Street
Greenville, South Carolina 29601

The Citadel Trust
c/o The Citadel
171 Moultrie Street
Charleston, South Carolina 29409

Clemson Research Facilities Corporation
c/o Clemson University's Comptroller's
Office
Administrative Services Building
Perimeter Road
Clemson, South Carolina 29634

Pharmaceutical Education and Development
Foundation
c/o Health Sciences Foundation
18 Bee Street
Post Office Box 250450
Charleston, South Carolina 29425

Medical University Hospital Authority
Fiscal Services Offices
Post Office Box 250603
Charleston, South Carolina 29425

Medical University Facilities Corporation
c/o Vice President for Finance and
Administration
Medical University of South Carolina
171 Ashley Avenue
Post Office Box 250003
Charleston, South Carolina 29425

University of South Carolina Trust
University of South Carolina Medical
School
Post Office Box 413
Columbia, South Carolina 29202

University Medical Associates
1180 Sam Rittenberg Blvd, Suite 355
Charleston, South Carolina 29407

Discretely Presented Component Units

Unless otherwise indicated below, the discretely presented component units have fiscal years ended June 30, and the accompanying financial statements include component unit financial information for the fiscal year ended June 30, 2002.

Public Service Authority

The State General Assembly created the South Carolina Public Service Authority (Santee Cooper), a public utility company, in 1934. The Authority's primary purpose is to provide electric power and wholesale water to the people of South Carolina. The Governor appoints the Authority's Board of Directors. By law, the Authority must annually transfer to the State's General Fund any net earnings not necessary for prudent business operations. The financial information presented in the accompanying financial statements is for the Authority's fiscal year ended December 31, 2001.

State Ports Authority

The State General Assembly created the South Carolina State Ports Authority in 1942 to develop and improve the State's harbors and seaports. The State Ports Authority owns and operates seven ocean terminals that handle import and export cargo. The Governor appoints the members of the Authority's governing board. The State's primary government has provided financial support to the Authority in the past, and State law grants the primary government access to the Authority's surplus net revenues.

Connector 2000 Association, Inc.

Connector 2000 Association, Inc., was created in 1996 to assist the Department of Transportation in the financing, acquisition, construction, and operation of turnpikes and other transportation

Notes to the Financial Statements

projects, primarily the project known as the Southern Connector in Greenville County. The Department of Transportation initially set the toll rates for the Southern Connector and has the right, but not the obligation, to revise the rates as long as they are within 90.0% to 120.0% of the optimum toll rates as estimated by an independent traffic consultant retained by the Association. The rates also must be in compliance with revenue covenants of the Association's financing agreements. The financial information presented in the accompanying financial statements is for the Association's fiscal year ended December 31, 2001. In prior fiscal years, the Association was reported as a development stage enterprise.

Lottery Commission

The South Carolina Lottery Commission commenced operations in July 2001 in accordance with an act of the General Assembly. The Commission, established to serve the State's citizens, is governed by a nine-member board with three members appointed by the Governor, three appointed by the President Pro Tempore of the Senate, and three appointed by the Speaker of the House of Representatives. State law requires that the Commission transfer its net proceeds to the State to support improvements and enhancements for educational purposes and programs.

Other Discretely Presented Component Units

The State considers the four discretely presented component units described above as its major component units. The State's government-wide financial statements also include the following non-major discretely presented component units:

The South Carolina First Steps to School Readiness Board of Trustees was established in 1999 as a non-profit, tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code. The corporation was created specifically to carry out the objectives of The South Carolina First Steps to School Readiness Act and to lessen the burdens on government by overseeing the South Carolina First Steps to School Readiness initiative for improving early childhood development. The corporation's governing board is composed of two classes of members, voting and nonvoting. The Board's voting members include the Governor, State Superintendent of Education, ten Governor appointees, four persons appointed by the President Pro Tempore of the Senate, four members appointed by the Speaker of the House of Representatives, the Chairman of the Senate Education Committee, and the Chairman of the House Education and Public Works Committee.

The Children's Trust Fund of South Carolina, Inc. (the Fund), is a non-profit, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Fund's purpose is to stimulate innovative prevention and treatment programming to meet critical needs of South Carolina's children by awarding grants to private non-profit organizations. The Governor appoints the Board of Trustees' nine members. The financial information presented in the accompanying financial statements is for the Fund's fiscal year ended December 31, 2001.

The Savannah Lakes Regional Loan Fund was established in 1990. It maintains a revolving loan fund to promote economic development in the State's Savannah Lakes Region. The Fund's Board of Directors consists of three members from each of two State agencies, the Department of Commerce and the Jobs—Economic Development Authority. The State's primary government initially capitalized the fund. The primary government regularly provides gratis administrative services to the fund.

Obtaining More Information about Discretely Presented Component Units

One may obtain complete financial statements for the discretely presented component units from the following administrative offices:

South Carolina Public Service Authority
(Santee Cooper)
One Riverwood Drive
Moncks Corner, South Carolina 29461-2901

South Carolina State Ports Authority
Post Office Box 22287
Charleston, South Carolina 29413-2287

Connector 2000 Association, Inc.
J. Peters & Associates
880 South Pleasantburg Drive, Suite 2B
Greenville, South Carolina 29607

The South Carolina Lottery Commission
Post Office Box 11949
Columbia, South Carolina 29211

The Children's Trust Fund
c/o United Way of South Carolina
2711 Middleburg Drive, Suite 307
Columbia, South Carolina 29204

Savannah Lakes Regional Loan Fund
Post Office Box 8327
Columbia, South Carolina 29202

Fund financial statements for The First Steps to School Readiness Board of Trustees are included in the Supplementary Information section of the State's Comprehensive Annual Financial Report. This entity does not issue separate financial statements.

Related Organizations

A related organization is one for which the primary government is accountable but not *financially accountable*. The South Carolina Reinsurance Facility, the Associated Auto Insurers Plan, and the Rural Crossroads Institute are related organizations because the State is not financially accountable for them despite the fact that the Governor appoints a voting majority of their governing boards. County boards of mental retardation and redevelopment authorities are related organizations if the Governor appoints a voting majority of the members. Enterprise Development, Inc., of South Carolina is a related organization because the State created the organization and could abolish it; but the State is not financially accountable for it.

Notes to the Financial Statements

Jointly Governed Organizations

The Governor, in conjunction with officials of certain local governments, appoints the board members of two military facility redevelopment authorities. The State does not have an ongoing financial interest in these authorities. The Governor appoints one out of seven board members of the Charleston Naval Complex Redevelopment Authority and three out of nine board members of the Myrtle Beach Air Force Base Redevelopment Authority.

During the 2001-2002 fiscal year, the State joined the Atlantic Low-Level Radioactive Waste Compact, a voluntary association of states that, by federal law, is legally separate from each of the party states. South Carolina does not have an ongoing financial interest in the Compact.

b. Basis of Presentation

Government-wide Financial Statements

The statement of net assets and the statement of activities report information about all activities of the primary government and its component units, except for fiduciary activities. These statements distinguish between the State's *governmental* and *business-type activities*. Taxes, federal revenues, and other nonexchange transactions primarily finance the governmental activities whereas fees charged to external parties finance, in whole or in part, the business-type activities.

Statement of Activities and Eliminations

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the State and for each function of the State's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The State does not eliminate direct expenses and does not allocate indirect expenses to functions in the statement of activities. In the statement of activities, reimbursements under indirect cost plans for federal reimbursement purposes are reported as program revenues of the function that includes the reimbursed expenses.

Eliminations have been made to minimize the double-counting of internal activities. For example, the State eliminates payments the Department of Health and Human Services makes to the Department of Mental Health for provision of Medicaid services because it reports both departments in its health and environment function. An exception to this general rule is that interfund services provided or used between functions have not been eliminated in the statement of activities because to do so would distort the net cost data for functional activities as reported in the total column of that statement. The State treats these internal payments as program revenues and treats interfund reimbursements in the statement of activities in the same manner as described below for fund financial statements. For example, when the Department of Health and Human Services purchases computer services from one of the State's higher education institutions, the health and environment

governmental function reports an expense, and the higher education business-type activity reports program revenue (charges for services).

Program revenues include: (a) fees, fines, and charges paid by the recipients of goods, services, or privileges offered by the programs; (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program; and (c) investment earnings that are legally restricted for a specific program. The State classifies as *general revenues* all revenues that are not program revenues, including all taxes.

Major Component Units

The State's management designates the Public Service Authority, the State Ports Authority, the Connector 2000 Association, Inc., and the Lottery Commission as major component units. The nonmajor component units include aggregate totals of all remaining discretely presented component units. In determining which component units to designate as major, the State considered each component unit's significance relative to the other component units and the nature and significance of its relationship to the primary government.

The Public Service Authority is a regulated electric utility that uses accounting principles established by the Federal Energy Regulatory Commission and reports in accordance with Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*.

Fund Financial Statements

The fund financial statements provide information about the State's funds, including its fiduciary funds and blended component units. The State presents separate statements for each fund category—governmental, proprietary, and fiduciary. The emphasis of fund financial statements is on major governmental and enterprise funds, with each displayed in a separate column. The State aggregates and reports as nonmajor funds all remaining governmental and enterprise funds.

The State eliminates material intrafund activity. It also treats interfund reimbursements (repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them) as reductions of expenditure/expense in the initial fund. For example, the Governor's Continuum of Care program, reported within the general government function, initially records expenditures in a special revenue fund to obtain care for emotionally disturbed children. However, the Department of Mental Health, reported within the health and environment function, later reimburses the Governor's Office for these costs. That is, the Department of Mental Health records a General Fund expenditure while the Governor's Office reduces the special revenue fund's expenditures by the same amount.

Governmental Funds

Governmental funds focus primarily on the sources, uses, and balances of current financial resources. The governmental fund category includes the General Fund, special revenue funds, capital

Notes to the Financial Statements

projects funds, and permanent funds. The State reports the following major governmental funds:

The General Fund is the State's general operating fund. It accounts for resources that fund the services South Carolina's State government traditionally has provided to its citizens, except those required to be accounted for in another fund.

The Departmental General Operating Fund accounts for resources, other than General Fund resources, that State agencies may use for operating purposes. These resources include significant amounts of federal grant receipts.

The Local Governmental Infrastructure Fund accounts for grants, loans, and other financial assistance to local governments for infrastructure purposes. Certain motor fuel taxes, federal funds, and transfers from other funds are the fund's primary resources. This fund includes operations of the South Carolina Transportation Infrastructure Bank.

The Department of Transportation Special Revenue Fund accounts for the various gasoline taxes, fees, fines, and federal grant resources that the Department of Transportation uses in its general operations. Those operations include highway maintenance and repair as well as most of the Department's administrative activities.

The State Tobacco Settlement Fund accounts for revenues received from the General Fund and from the Tobacco Settlement Revenue Management Authority, a blended component unit and nonmajor governmental fund designated to receive and manage South Carolina's share of the multi-state legal settlement with the tobacco industry. Various healthcare and local government programs use these funds and the related interest.

The State aggregates other nonmajor governmental funds in a single column in its fund financial statements.

Enterprise Funds

Enterprise funds report activities that charge fees to external users for goods or services. The State reports the following major enterprise funds:

The Higher Education Fund accounts for the general operations of ten four-year higher education institutions and sixteen area technical colleges, all of which are part of the State's primary government.

The Unemployment Compensation Fund accounts for the State's unemployment compensation benefits. Revenues consist of assessments on employers to pay benefits to qualified unemployed persons.

The Housing Authority Fund facilitates medium-income and low-income housing opportunities by providing reasonable financing to the State's citizens. To provide such financing, the Fund issues bonds and notes and administers federal grants and contracts. Mortgage interest is a primary resource for the Fund.

The Education Assistance Authority Fund issues bonds to make loans to individuals to enable students to attend higher education institutions. Resources include interest charges, subsidies from the United States Department of Education, loan repayments, and investment earnings.

The State aggregates other nonmajor enterprise funds in a single column in its fund financial statements.

Other Fund Types

The State reports the following fund types in addition to governmental and enterprise funds:

Internal service funds account for various goods and services provided to other State departments or agencies, or to other governments, on a cost-reimbursement basis. Services provided by these funds include several risk management activities for which the State is the primary participant, including underwriting related to the following risks: public buildings and their contents, forts, medical malpractice, automobile use by public employees in the performance of their official duties, employee health and disability, and workers' compensation benefits. Other services include those relating to telecommunications, computer operations, office rental, janitorial, building maintenance, lease and repair of fleet vehicles, procurement, employee training, and management of public employee retirement systems. The internal service funds also sell goods produced with their official inmate labor. In addition, the internal service funds purchase selected supplies and equipment in bulk and sell these items to other State funds and to local governmental units.

Pension trust funds account for the pension benefits of the South Carolina Retirement System, the Police Officers' Retirement System, the General Assembly Retirement System, the Judges' and Solicitors' Retirement System, and the National Guard Pension System.

The State's *investment trust fund* accounts for a local government investment pool that the State Treasurer operates.

Private-purpose trust funds include tuition prepayment and savings programs benefiting college students. Another private-purpose trust fund sets aside assets for site stabilization and closure of a nuclear waste site operated by a private company within the State's borders in the event that the company ceases operations or loses its license to operate. The private-purpose trust funds also include miscellaneous other trust agreements holding assets that primarily benefit non-State parties.

Agency funds account for assets that the State holds as an agent. These assets include deposits of insurance companies in lieu of surety bonds; employee and employer payroll deductions and contributions for the short period of time between the issuance of payroll checks and payment to the recipients; and various other assets held for prisoners, patients of State institutions, and other external parties.

Operating and Nonoperating Revenues and Expenses in Proprietary Fund Financial Statements

Enterprise and internal service funds distinguish operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally are limited to items resulting from the provision of services and goods in connection with the fund's principal ongoing operations. The State generally classifies revenues and expenses as operating only if the related cash flows appear in the operating section on the statement of cash flows. Accordingly, grants and grant-like transactions are reportable as operating revenues only if they are essentially the same as

Notes to the Financial Statements

contracts for services (i.e., exchange transactions) and they finance programs that the proprietary fund would not otherwise undertake (i.e., the activity of the grant is inherently part of the operations of the grantor). Conversely, the State classifies most nonexchange and exchange-like transactions as nonoperating. This includes all grant revenues except those reportable as operating revenue as described above and those restricted by the grantor for use exclusively for capital purposes. The State reports as operating most expenses it pays from operating revenues but usually reports interest expense as nonoperating.

In accordance with the general policy stated in the preceding paragraph, the *Higher Education Fund's* principal operating revenues include tuition; student fees; student loans; scholarships and grants (including Pell grants) where the provider has identified the student recipients; sales of miscellaneous goods and services; and certain research grants that, in substance, are contracts for services rather than nonexchange revenues. However, the Higher Education Fund generally does not report as revenue third-party loan amounts that it receives and disburses. (In a third-party loan, a student or a student's parents secure(s) a student loan from a governmental fund or from another lender such as the federal government; the Higher Education Fund then receives funds from the lender and disburses the funds to the student or applies amounts to the student's account.)

For the *Unemployment Compensation Fund*, principal operating revenues include amounts received from covered employers and from federal agencies. The amounts received from federal agencies are classified as operating revenues because they are provided to the State primarily to provide unemployment benefits, although amounts not needed for that purpose may be used for other purposes. This fund's operating expenses consist of unemployment compensation benefits paid. Interest income is this fund's principal nonoperating item.

For the *Housing Authority Fund* and the *Education Assistance Authority Fund*, principal operating items include revenues and expenses associated with program loans that provide direct benefits to individuals.

The principal ongoing operation of *The Citadel Trust, Inc.*, a nonmajor enterprise fund, is investing. Accordingly, the State reports its investment-related transactions as operating rather than nonoperating.

Component Unit Financial Statements

The State presents a statement of net assets and a statement of activities for each of its major discretely presented component units.

Use of Private-Sector Accounting and Financial Reporting Principles

The government-wide and proprietary fund financial statements reflect the State's compliance with private-sector standards of accounting and financial reporting issued prior to November 30, 1989, to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also may opt to follow private-sector guidance issued after November 30, 1989, for their

business-type activities (enterprise funds) and for their discretely presented component units that follow enterprise fund accounting, subject to the same limitation. Only the Public Service Authority and the State Ports Authority, major discretely presented component units, have selected this option.

c. Measurement Focus and Basis of Accounting

A particular measurement focus determines *what* resources are measured. The State reports its government-wide, proprietary, and fiduciary fund financial statements using the *economic resources* measurement focus. Business enterprises use this same measurement focus. The State reports its governmental funds using the *current financial resources* measurement focus.

The basis of accounting determines *when* the State recognizes revenues and expenditures/expenses as well as the related assets and liabilities, regardless of measurement focus. Generally accepted accounting principles for governments require the use of the accrual and the modified accrual bases of accounting as described below.

Accrual Basis

The State uses the accrual basis of accounting in reporting its government-wide financial statements, as well as its proprietary and fiduciary fund financial statements and its major component unit financial statements. Under the accrual basis, the State generally records revenues when earned and reasonably measurable and records expenses when a liability is incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the State gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, donations, fines, and penalties. On the accrual basis, the State recognizes income, sales, and similar taxes in the period when the underlying income or sales transactions occur. The State recognizes grants, donations, and similar items as revenue as soon as it meets all eligibility requirements. Fines and penalties are recognized in the period when an enforceable legal claim to the related assets has arisen. Pledges are recognized as receivables and revenues, net of estimated uncollectible amounts, if all eligibility requirements are met, the promise is verifiable, and the resources are measurable and probable of collection. Note 18b provides additional details regarding pledges that were not measurable at June 30, 2002.

Modified Accrual Basis

The State uses the modified accrual basis of accounting to report its governmental funds. Under the modified accrual basis, revenues, net of estimated uncollectible amounts, are recognized in the fiscal year when they become susceptible to accrual—that is, as soon as they become both measurable and available to finance expenditures of the fiscal year. Deferred revenue is recorded for receivables that are measurable but not available at year-end.

Under the modified accrual basis, the State's governmental funds consider receivables collected

Notes to the Financial Statements

within one year after year-end to be available and recognizes them as revenues of the current year if measurable. Interest on investments is recorded as earned because it is deemed available when earned. Taxes, grants, donations, revenue resulting from the provision of material services and commodities, interest on investments, fines, and penalties associated with the current fiscal year are considered susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items in governmental funds are considered to be available only when the State receives the related cash.

Under the modified accrual basis, expenditures generally are recorded when a liability is incurred, as under accrual accounting. An exception, however, is that principal and interest on general long-term debt, claims and judgments, and compensated absences, are recognized as expenditures only to the extent they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. General capital asset acquisitions are reported as expenditures (rather than as assets) in governmental funds.

Recognition of Specific Grant and Shared Revenue Transactions

The State's governmental funds do not report the receipt of food commodities as revenue and do not report the distribution of commodities as expenditures because there is no flow of *financial* resources in conjunction with these transactions. However, the State does record these receipts and distributions as revenues and expenses on the accrual basis of accounting.

The State recognizes the face value of food stamp benefits distributed as revenue and expenditures/expenses under both the accrual and modified accrual bases of accounting. It also recognizes food stamp coupons on hand as other assets and as deferred revenue.

The State shares certain of its revenues with municipalities, counties, and districts within its borders, recognizing expenditure or expense when the recipient government has met all eligibility requirements.

d. Cash and Cash Equivalents

The amounts shown in the accompanying financial statements as *cash and cash equivalents* represent petty cash, cash on deposit in banks, restricted cash and cash equivalents on deposit with external parties, and cash invested in various instruments as a part of the State's cash management pool, an internal investment pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of domestic corporations, certificates of deposit, and collateralized repurchase agreements.

Most entities in the primary government and the discretely presented governmental component units participate in the cash management pool. Significant

exceptions, however, are: retirement plans, the Local Government Investment Pool (an external investment pool), the Tobacco Settlement Revenue Management Authority (a blended component unit and a nonmajor governmental fund), the Housing Authority (a major enterprise fund), and certain activities of the Higher Education Fund (a major enterprise fund). Of the discretely presented component units, only the State Ports Authority and the First Steps to School Readiness Board of Trustees participate in the pool. For activities excluded from the pool, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less.

e. Cash Management Pool—Allocation of Interest

The State's cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account. All earnings on that account, however, are recorded in the General Fund. In contrast, each special deposit account retains its own earnings.

f. Investments

The State Treasurer is authorized by statute to invest all State funds. The State Treasurer's investment objectives are preservation of capital, maintenance of adequate liquidity, and obtaining the best yield possible within prescribed parameters. To meet those objectives, the State Treasurer uses various resources including an investment advisory service, electronic financial quotation and information services, various economic reports, and daily communication with brokers and financial institution investment officers.

To insure safety of principal, the State Treasurer's policy is to limit liquid investments (i.e., those with maturities not exceeding one year) to cash, repurchase agreements (when collateralized by United States Treasury, federal agency or other federally guaranteed obligations with a market value in excess of 100.0% of funds advanced), United States Treasury bills, federal agency discount notes, and commercial paper. The State Treasurer further preserves principal by investing in only the highest investment grade securities (i.e., those rated at least A by two leading national rating services). In order to diversify investment holdings, asset allocation policies are utilized for investments having more than one year to maturity. Overall credit exposure is managed by asset allocation policies and by additional constraints controlling risk exposure to individual corporate issuers.

Under State law, the State Retirement Systems Investment Panel (the Panel) may make limited investments in equity securities for the State's pension trust funds. Each member of the State Budget and Control Board appoints one member of the five-member Panel. The Panel's objective is to optimize the long-term performance of equity investments consistent with a prudent level of portfolio risk, considering the liabilities and liquidity needs of the pension trust funds.

Substantially all of the State's investments are presented at fair value; securities are valued at the last reported sales price as provided by an

Notes to the Financial Statements

independent pricing service. In contrast, however, the State has presented at historical cost the investment securities and other instruments that the Chief Insurance Commissioner holds for insurance companies in lieu of surety bonds. These securities are separately classified in the accompanying financial statements as *securities held in lieu of surety bonds*. These instruments are recorded in the State's agency funds and are not held for investment purposes.

The State sponsors the Local Government Investment Pool (LGIP), an external investment pool reported as an investment trust fund. The LGIP's complete financial statements may be obtained by writing to the following address:

The State Treasurer's Office
Local Government Investment Pool
Post Office Drawer 11778
Columbia, South Carolina 29211

g. Receivables and Payables

The State records amounts receivable from parties outside the primary government net of allowances for uncollectible amounts and contractual adjustments. It estimates uncollectible amounts based on past collection experience. The State discloses the gross amounts of these receivables and the amounts of related allowances and adjustments in Note 6.

The State presents balances outstanding at the end of the fiscal year that relate to lending/borrowing arrangements between funds as interfund receivables and payables and reports all other outstanding balances between funds as due to/from other funds. The government-wide statement of net assets displays internal balances that involve fiduciary funds as accounts receivable and accounts payable. The State reports as internal balances any residual balances outstanding between the governmental and business-type activities in the government-wide financial statements.

The long-term portion of interfund receivables/payables, as reported in the fund financial statements, is offset by a fund balance reserve account in applicable governmental funds to indicate that these amounts are not available for appropriation and do not represent expendable available financial resources.

h. Inventories

The State values its inventories at cost, predominantly using the first-in, first-out methodology for its proprietary funds and its business-type activities and predominantly using the average cost methodology for its other funds and activities and its discretely presented component units. The State records expenditures in governmental funds when it consumes inventory items rather than when it purchases them.

i. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods. The State

records these payments as prepaid items in both the government-wide and fund financial statements.

j. Capital Assets

The State reports its capital assets in the following categories in the applicable governmental or business-type activities in the government-wide financial statements: land and land improvements, infrastructure (i.e., highways and bridges), buildings and improvements, construction in progress, vehicles, machinery and equipment, works of art and historical treasures, and intangible assets.

Capital assets are valued at historical cost or at estimated historical cost if actual historical cost data are not available. Donated capital assets are recorded at estimated fair market value on the donation date. The costs of normal maintenance and repairs that do not significantly add to the value of an asset or materially extend an asset's useful life are not capitalized. Cumulative costs incurred on major capital assets under construction but not yet placed in service are capitalized and reported in the construction in progress account. Net interest incurred by a proprietary fund during the construction phase of its major capital asset is included as part of the capitalized value of such asset.

An individual asset is capitalized and reported if it has an estimated useful life of at least two years and a historical cost as follows: more than \$5 thousand for vehicles, machinery and equipment, and works of art and historical treasures; more than \$100 thousand for buildings and improvements, depreciable land improvements, and intangible assets; and more than \$500 thousand for roads and bridges. All land and non-depreciable land improvements are capitalized and reported, regardless of cost. Certain State agencies also capitalize those assets with a useful life between one and two years that meet the preceding dollar thresholds, and the Lottery Commission, a major discretely presented component unit, capitalizes all property and equipment purchases of \$1 thousand or more.

Once the State or one of its discretely presented component units places a depreciable capital asset in service, depreciation is recorded using the straight-line method over the following estimated useful lives:

Asset Category	Years
Land improvements.....	3 - 60
Infrastructure--highways.....	75
Infrastructure--bridges.....	50
Buildings and improvements.....	5 - 55
Vehicles.....	3 - 20
Machinery and equipment.....	2 - 25
Works of art; historical treasures.....	10 - 25
Intangible assets.....	3 - 38

In addition, certain capitalized works of art and historical treasures are not depreciated because they are considered to be inexhaustible.

Notes to the Financial Statements

The State does not capitalize certain collections of works of art and historical treasures that are held for public use, are protected and preserved, and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. These non-capitalized collections include portraits of political leaders, historical relics, antiques, fossils, and other South Carolina artifacts.

The State reports losses on disposals of capital assets as expenses of its General Government function and gains on such disposals as general revenues in the government-wide statement of activities.

The State reports the Southern Connector toll road as a capital asset of the Connector 2000 Association, Inc., the major discretely presented component unit that financed, constructed, and is responsible for maintaining and operating the toll road. Under an agreement between the Association and the State Department of Transportation (DOT), the DOT retains fee simple title to the road.

k. Deferred Charges

Deferred costs to be recovered from future revenues of the South Carolina Public Service Authority (a regulated utility reported as a major discretely presented component unit) are recorded as deferred charges. The Authority's rates are based upon debt service and operating fund requirements. The Authority recognizes differences between debt principal maturities and straight-line depreciation as costs to be recovered from future revenue. The recovery of outstanding amounts associated with costs to be recovered from future revenue will coincide with the retirement of the outstanding long-term debt of the Authority.

Deferred charges also include the cost of a buy-out option on a coal contract exercised by the Authority. The cost is being amortized as a component of fuel costs over the remaining life of the former contract.

l. Tax Refunds Payable

Most of the tax refunds payable balance in the General Fund relates to individual income tax. During the calendar year, the State collects employee withholdings and taxpayers' payments. Taxpayers file returns by April 15 for the preceding calendar year. At June 30, the State estimates the amount it owes taxpayers for overpayments during the preceding six months. The State records this estimated payable as tax refunds payable and a reduction of tax revenues.

m. Long-Term Obligations

The State records general long-term debt and other long-term obligations of the primary government's governmental funds in the governmental activities reported in its government-wide financial statements. Long-term debt and other obligations financed by proprietary funds are

recorded as liabilities in the appropriate funds. The internal service funds are in the governmental activities and the enterprise funds are in the business-type activities reported in the State's government-wide financial statements.

The State defers and amortizes bond premiums and discounts, as well as issuance costs, over the life of the bonds predominantly using the effective interest method. For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is also deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The State reports bonds payable net of the applicable bond premium or discount and deferred amount on refunding. Unamortized issuance costs are reported as deferred charges.

A blended component unit reported in the nonmajor enterprise funds enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures and the amortization of certain deferred revenue resulting from these agreements, no amounts are recorded in the financial statements.

n. Compensated Absences

During their first ten years of service, most full-time permanent State employees annually earn 15 days of vacation leave and 15 days of sick leave. After ten years, most employees earn an additional 1.25 days of vacation leave for each year of service over ten until they reach the maximum of 30 days per year. Employees may carry forward up to 45 days of vacation leave and 180 days of sick leave from one calendar year to the next. Upon termination of employment, the State pays employees for accumulated vacation leave at the pay rate then in effect. Employees do not receive pay for accumulated sick leave when they terminate. However, at retirement, employees participating in the South Carolina Retirement System and the South Carolina Police Officers' Retirement System may receive additional service credit for up to 90 days of accumulated unused sick leave.

The government-wide and proprietary fund statements record an expense and a liability when employees earn compensated absence credits. Governmental fund financial statements record a liability (classified as part of accounts payable and accrued liabilities) for compensated absences at June 30 only if the liability has matured but has not yet been paid at that date (for example, as a result of employee resignations and retirements). The State does not record a liability for unpaid accumulated sick leave.

o. Perkins Loan Liability

The Higher Education Fund, a major enterprise fund, records a liability related to the Perkins student loan program and certain other federal student loan programs to reflect the amount of capital contributions received to date from the federal government plus any other amounts that ultimately are refundable to the federal government under the

Notes to the Financial Statements

programs. The State has recorded this liability as part of its other liabilities account.

p. Restricted Net Assets

The State reports a portion of its net assets in its government-wide financial statements as restricted. In this context, *restricted* means that, as of June 30, 2002, this portion of net assets was restricted for a particular purpose either by external parties, by provisions of the State Constitution, or by enabling legislation. Net assets restricted by enabling legislation are subject to change by a majority vote of the General Assembly. If the General Assembly subsequently removes restrictions from amounts reported as restricted net assets at June 30, 2002, the State reclassifies such amounts as *unrestricted* net assets when the change becomes effective.

q. Flow Assumption, Net Assets

The State's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

r. Escheat Property

The State accounts for its escheat property in the General Fund, the fund to which the property ultimately escheats. To the extent it is probable that such property will be reclaimed and paid to claimants, the State records a liability and reduces revenue in the General Fund.

NOTE 2: ACCOUNTING AND REPORTING CHANGES

a. New Governmental Financial Reporting Model

Effective July 1, 2001, the State adopted the Governmental Accounting Standards Board's (GASB) Statement 34, *Basic Financial Statements— and Management's Discussion and Analysis— for State and Local Governments*; Statement 35, *Basic Financial Statements— and Management's Discussion and Analysis— for Public Colleges and Universities*; Statement 37, *Basic Financial Statements— and Management's Discussion and Analysis— for State and Local Governments: Omnibus*; portions of Statement 38, *Certain Financial Statement Note Disclosures*, that were required to be implemented effective July 1, 2001; and Interpretation 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. In addition, effective July 1, 2001, the State adopted those provisions of Statements 33 and 36, *Accounting and Financial Reporting for Nonexchange Transactions and Recipient Reporting for Certain Shared Nonexchange Revenues*, that apply to the government-wide financial statements (it applied those pronouncements to its fund financial statements effective July 1, 2000).

Collectively, these pronouncements are known as the new governmental financial reporting model.

The new model requires new information and restructures much of the information that the State presented in its Comprehensive Annual Financial Report (CAFR) in the past. Accordingly, the CAFRs that the State issues for the current and future fiscal years will not necessarily be comparable with the CAFRs it issued in past years.

The State's adoption of the new model resulted in the following changes, which significantly affect fund equity as previously reported at June 30, 2001:

- (a) The State now presents new government-wide financial statements using the full accrual basis of accounting. The government-wide statements include the following: historical cost of all capital assets, including infrastructure and intangible assets, net of accumulated depreciation; long-term debt; and depreciation expense.
- (b) The State presents fund financial statements similar to those it presented in past years but with a change in emphasis from fund types to major individual funds and omission of data for discretely presented component units and account groups.
- (c) Because the model added new fund types and omitted or redefined certain other fund types used in the past, the State reclassified several of its funds and portions of funds effective July 1, 2001.
- (d) Now that it is classified as an enterprise fund, the Higher Education Fund, a major fund, allocates its summer semester revenue between fiscal years rather than recording it in the fiscal year in which the semester is predominantly conducted. Also, due to adopting the accrual basis of accounting, the Higher Education Fund now records depreciation on capital assets.
- (e) Effective July 1, 2001, the State's Higher Education Fund began reporting Perkins and certain other loan program balances, which ultimately are refundable to the federal government, as liabilities. These amounts previously were reported as part of fund balance.
- (f) Blended component units associated with higher education institutions reported within the State's Higher Education Fund previously were reported in a separate Foundations and Institutes column of the Higher Education Funds. Effective July 1, 2001, management of the State evaluated each blended component unit to determine whether it should be reported as a major enterprise fund. As a result of this determination, the State now reports all of its college-related blended component units as nonmajor enterprise funds.
- (g) Effective July 1, 2001, the State began presenting its budgetary comparison schedule as required supplementary

Notes to the Financial Statements

information (RSI) rather than as part of the basic financial statements. Accordingly, the effect of the new model on budgetary fund balances is discussed as part of RSI rather than within these notes.

- (h) The State eliminated the interest in license agreement account that it previously reported for the Connector 2000 Association, Inc., a major discretely presented component unit. This balance was replaced by the toll road that the Association has constructed in order to avoid capitalizing the same construction costs twice within the government-wide financial statements.

b. Changes in Capitalization Thresholds

Effective July 1, 2001, the State standardized its capitalization limits across all of its agencies. Previously, capitalization limits had varied among agencies but within limits. Adoption of the new standard limits, which are described in Note 1j, constituted a change in capitalization limits for most agencies. The changes, recognized retroactively, predominantly represented increases in capitalization limits.

c. Change in Availability Period in Governmental Funds

Effective July 1, 2001, the State now recognizes all revenues in its governmental funds using a *one-year* availability period. The State began its transition to a one-year availability period (from a one-month availability period) in the fiscal year ended June 30, 2001, by adopting the one-year availability period for purposes of recognizing intergovernmental grants beginning July 1, 2000. The State's financial managers believe that this change for all revenues in governmental funds will help to minimize reconciling items between the government-wide financial statements and the fund financial statements and, therefore, will enhance understandability of the financial statements prepared in accordance with the new governmental financial reporting model described in part *a* of this note.

d. Change in Inventory and Prepaid Items, Accounting Method for Governmental Funds

Effective July 1, 2001, the State began applying the consumption method to its inventories and prepaid items accounted for in governmental funds.

Before July 1, 2001, the State applied the purchases method. The State's financial managers believe that this change will help to minimize reconciling items between the government-wide financial statements and the fund financial statements and, therefore, will enhance understandability of the financial statements prepared in accordance with the new governmental financial reporting model prescribed by the pronouncements discussed in part *a* of this note.

e. Effects of Accounting and Reporting Changes on Beginning Fund Equity and Beginning Net Assets

The schedules below, expressed in thousands, detail changes made to beginning fund equity to give effect to the State's implementation of the GASB Statements described in part *a* of this note, the changes in capitalization thresholds, the change in availability period in governmental funds, the change in inventory and prepaid items accounting method for governmental funds, and the correction of an error in arbitrage liability reported in the Education Assistance Authority Fund.

Government-wide Financial Statements

	Primary Government		Non-major
	Govern- mental Activities	Business- type Activities	Component Units
Net assets at June 30, 2001 as previously reported.....	\$ —	\$ —	\$ —
Report fund equity of fund-based activities previously reported in general purpose financial statements.....	3,544,616	218,670	43,795
Increase capitalization limits, capital assets.....	(10,497)	(991)	—
Adopt one-year availability period.....	231,717	—	—
Adopt consumption method.....	5,417	—	—
Effect of correction of arbitrage payable....	—	10,054	—
Adopt new financial reporting model:			
Report fund activity previously reported in fiduciary funds.....	113,253	796,363	—
Report higher education activities as business-type activities.....	—	3,511,168	—
Less: Effect of increase in capitalization limits, capital assets.....	—	(362,287)	—
Other fund reclassifications.....	6,128	(6,128)	—
Report capital assets, net of accumulated depreciation.....	9,167,189	—	31
Report long-term liabilities.....	(4,121,821)	—	(95)
Report governmental activities on full accrual basis of accounting.....	105,918	—	—
Report higher education activities on full accrual basis of accounting:			
Report depreciation on capital assets..	—	(1,067,144)	—
Other adjustments.....	—	(79,646)	—
Other adjustments to adopt new model....	(1,587)	(2,060)	660
Net assets at June 30, 2001, as restated.....	\$ 9,040,333	\$ 3,017,999	\$ 44,391

Notes to the Financial Statements

Fund Financial Statements

Fund Equity or Net Assets Category	Fund Equity or Net Assets at June 30, 2001						
	As Previously Reported	Change Capitaliza- tion Limits, Capital Assets	Adopt Other Changes in Accounting Principles	Give Effect to Correction of Arbitrage Payable	Adopt New Financial Reporting Model		As Restated
					Fund Reclassifi- cations	Other Adjust- ments	
General Purpose Financial Statements							
<u>Governmental Funds</u>							
General Fund.....	\$ (20,723)	\$ —	\$ 224,256	\$ —	\$ (203,533)	\$ —	\$ —
Special Revenue Funds.....	3,184,083	—	12,878	—	(3,196,961)	—	—
Capital Projects Fund.....	125,157	—	—	—	(125,157)	—	—
<u>Proprietary Funds</u>							
Enterprise Funds, retained earnings.....	197,567	(991)	—	10,054	(206,630)	—	—
Enterprise Funds, contributed capital.....	21,103	—	—	—	(21,103)	—	—
Internal Service Funds, retained earnings.....	164,175	(10,497)	—	—	(153,678)	—	—
Internal Service Funds, contributed capital.....	91,924	—	—	—	(91,924)	—	—
<u>Fiduciary Funds</u>							
Expendable Trust Funds.....	972,423	—	—	—	(971,640)	(783)	—
Nonexpendable Trust Funds.....	1,926	—	—	—	(1,926)	—	—
South Carolina Retirement System.....	18,689,841	—	—	—	(18,689,841)	—	—
Police Officers' Retirement System.....	2,234,189	—	—	—	(2,234,189)	—	—
General Assembly Retirement System.....	42,953	—	—	—	(42,953)	—	—
Judges' and Solicitors' Retirement System.....	95,718	—	—	—	(95,718)	—	—
National Guard Pension System.....	9,930	—	—	—	(9,930)	—	—
Investment Trust Fund.....	1,201,784	—	—	—	(1,201,784)	—	—
<u>Higher Education Funds</u>							
Current Unrestricted Funds.....	162,634	—	—	—	(162,634)	—	—
Current Restricted Funds.....	69,720	—	—	—	(69,720)	—	—
Loan Funds.....	58,111	—	—	—	(58,111)	—	—
Endowment and Similar Funds.....	132,300	—	—	—	(132,300)	—	—
Unexpended Plant Funds.....	152,243	—	—	—	(152,243)	—	—
Retirement of Indebtedness Funds.....	22,093	—	—	—	(22,093)	—	—
Investment in Plant Funds.....	2,760,075	(362,287)	—	—	(2,397,788)	—	—
Foundations and Institutes Fund.....	153,992	—	—	—	(150,955)	(3,037)	—
<u>Component Units</u>							
First Steps to School Readiness Board of Trustees.....	43,291	—	—	—	—	(43,291)	—
Public Service Authority.....	935,174	—	—	—	—	(935,174)	—
State Ports Authority.....	377,324	—	—	—	—	(377,324)	—
Connector 2000 Association, Inc.....	(1,143)	—	—	—	—	1,143	—
Savannah Lakes Regional Loan Fund.....	504	—	—	—	—	(504)	—
Basic Financial Statements							
<u>Governmental Funds</u>							
General Fund.....	—	—	—	—	205,118	55,825	260,943
Departmental General Operating Fund.....	—	—	—	—	223,887	(17)	223,870
Local Government Infrastructure Fund.....	—	—	—	—	1,378,920	(281,806)	1,097,114
Department of Transportation Special Revenue Fund.....	—	—	—	—	367,249	—	367,249
State Tobacco Settlement Fund.....	—	—	—	—	731,750	—	731,750
Nonmajor Governmental Funds.....	—	—	—	—	738,129	159	738,288

Notes to the Financial Statements

Fund Equity or Net Assets Category	Fund Equity or Net Assets at June 30, 2001						
	As Previously Reported	Change Capitaliza- tion Limits, Capital Assets	Adopt Other Changes in Accounting Principles	Give Effect to Correction of Arbitrage Payable	Adopt New Financial Reporting Model		As Restated
					Fund Reclassifi- cations	Other Adjust- ments	
<i>Proprietary Funds</i>							
Higher Education Fund.....	\$ —	\$ —	\$ —	\$ —	\$ 2,947,050	\$ (1,145,033)	\$ 1,802,017
Unemployment Compensation Fund.....	—	—	—	—	796,363	(780)	795,583
Housing Authority Fund.....	—	—	—	—	199,525	—	199,525
Education Assistance Authority Fund.....	—	—	—	—	118,824	—	118,824
Nonmajor Enterprise Funds.....	—	—	—	—	102,050	—	102,050
Internal Service Funds.....	—	—	—	—	245,581	—	245,581
<i>Fiduciary Funds</i>							
Pension Trust Funds.....	—	—	—	—	21,072,631	—	21,072,631
Private-Purpose Trust Funds.....	—	—	—	—	63,950	(29,578)	34,372
Investment Trust Funds.....	—	—	—	—	1,201,784	—	1,201,784
Totals.....	<u>\$ 31,878,368</u>	<u>\$ (373,775)</u>	<u>\$ 237,134</u>	<u>\$ 10,054</u>	<u>\$ —</u>	<u>\$ (2,760,200)</u>	<u>\$ 28,991,581</u>

The *other adjustments* column of the above schedule includes restatements due to basis of accounting changes associated with reclassifying funds to different fund types.

f. Account Reclassification

In the past, the State reported activity of the State Infrastructure Bank within its general government function. Beginning with the fiscal year ended June 30, 2002, however, activity of the State Infrastructure Bank (the Bank) is reported as part of the transportation function. The Bank's primary activity is financing and constructing roads that the State's transportation function capitalizes as infrastructure.

NOTE 3: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Educational expenditures in budgeted accounts aside from the General Fund exceeded appropriations by \$23.312 million at the legal level of control. Appropriations associated with the State's technical colleges are budgeted under the State Board for Technical and Comprehensive Education (the State Board). However, the sixteen colleges record the corresponding expenditures. Each college had sufficient budgetary-basis revenue and cash to provide for its budgetary-basis

expenditures. To prevent an excess of expenditures over revenues in the future, the State Board plans to obtain updated expenditure estimates from the colleges during the fiscal year so that it can request additional spending authority to cover those expenditures.

NOTE 4: DEFICITS OF INDIVIDUAL FUNDS AND NEGATIVE UNRESTRICTED NET ASSETS

a. Deficits of Individual Funds

The accompanying fund financial statements display deficit fund balances and deficit net asset balances for individual major funds, if applicable. Other funds had the following deficit net asset balances (expressed in thousands) at June 30, 2002:

Nonmajor Enterprise Funds:	
Patients' Compensation.....	\$ 205,095
Pharmaceutical Education and Development Foundation (PEDF) of the Medical University of South Carolina.....	7,328
Internal Service Funds:	
Employee Insurance Programs.....	69,615
State Accident Fund.....	48,399
Pension Administration.....	133

Notes to the Financial Statements

b. Negative Unrestricted Net Assets

The government-wide statement of net assets displays a \$879.188 million deficit unrestricted net assets balance for governmental activities. This deficit is due, in large part, to bonds that the State has issued to finance projects of other governments or to finance its own non-capital repairs and maintenance projects.

The State disburses the proceeds of its general obligation school facilities bonds to local school districts. These districts capitalize and report in their own financial statements the school facilities that they construct with these proceeds. Therefore, the State reports these bonds in unrestricted net assets.

The State disburses some of the proceeds of its general obligation capital improvement bonds to local governments for construction and redevelopment projects. In addition, the State uses some capital improvement bond proceeds for State repairs and maintenance projects. Accordingly, the State reports in unrestricted net assets the portion of capital improvement bonds payable that is associated with these non-capital projects.

The amount of the unrestricted net assets deficit attributable to debt issued for non-capital purposes is as follows (expressed in thousands):

State school facilities bonds.....	\$ 621,950
Capital improvement bonds, non-capital purposes.....	143,507
Total	\$ 765,457

In addition, the \$139.951 million General Fund deficit contributes to the unrestricted net assets deficit for governmental activities.

NOTE 5: DEPOSITS AND INVESTMENTS

By law, all deposits and investments are under the control of the State Treasurer except for those that by specific authority are under the control of other agencies or component units.

The following display reconciles the details included within this note to the accompanying financial statements at June 30, 2002 (expressed in thousands):

	State Treasurer's Deposits and Investments	Other	Total
Primary Government			
Deposits, carrying value.....	\$ 82,727	\$ 132,868	\$ 215,595
Investments, reported amount.....	23,549,127	7,347,719	30,896,846
Cash on hand.....	—	1,177	1,177
Totals, primary government.....	\$ 23,631,854	\$ 7,481,764	\$ 31,113,618
Component Units			
Deposits, carrying value.....	\$ 9,183	\$ 31,340	\$ 40,523
Investments, reported amount.....	3,788	618,190	621,978
Cash on hand.....	—	4	4
Totals, component units....	\$ 12,971	\$ 649,534	\$ 662,505

	Primary Government			
	Govern- ment-wide Statement of Net Assets	Fiduciary Funds Statement of Net Assets	Total	Component Units
Current assets:				
Cash and cash equivalents.....	\$ 3,501,445	\$ 3,593,421	\$ 7,094,866	\$ 102,686
Less: Unemployment Com- pensation Fund deposits with United States				
Treasury.....	(634,385)	—	(634,385)	—
Investments.....	38,192	18,774,202	18,812,394	123,393
Securities held in lieu of surety bonds.....	—	370,083	370,083	—
Invested securities lending collateral.....	578,874	3,303,509	3,882,383	1,891
Restricted assets:				
Cash and cash equivalents.....	220,139	—	220,139	101,762
Investments.....	115,938	—	115,938	73,233
Long-term assets:				
Investments.....	273,051	—	273,051	118
Restricted assets:				
Cash and cash equivalents.....	926,578	—	926,578	110,069
Investments.....	52,571	—	52,571	149,353
Totals.....	\$ 5,072,403	\$ 26,041,215	\$ 31,113,618	\$ 662,505

Amounts on deposit with the United States Treasury that relate to the Unemployment Compensation Fund, a major enterprise fund, are not categorized because they are neither deposits with financial institutions nor investments.

a. Deposits

Deposits include cash and cash equivalents on deposit in banks and non-negotiable certificates of deposit. At June 30, 2002, the State's deposits (expressed in thousands) were as follows:

	Category			Total Bank Balance	Carrying Amount
	1	2	3		
Primary government	\$ 313,842	\$ 27,648	\$ 46,830	\$ 388,320	\$ 215,595
Discretely presented component units.....	\$ 18,942	\$ 290	\$ 22,179	\$ 41,411	\$ 40,523

Category 1 deposits are those covered by federal depository insurance or by collateral held by a State entity or by its agent in the entity's name. Category 2 deposits are collateralized with securities held by the pledging financial institution's trust department or agent in a State entity's name. Category 3 deposits are uncollateralized. All deposits under the control of the State Treasurer are fully insured or collateralized.

b. Investments

Legally authorized investments vary by fund, but generally include obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, certain corporate bonds, and commercial paper. According to State law, up to 40% of the Pension Trust Funds' investments may be in equities. Substantially all of the State's investments are presented at fair value. Securities are valued at the last reported sales price as provided by an independent pricing service. Investment income

Notes to the Financial Statements

consists of realized and unrealized appreciation (depreciation) in the fair value of investments and interest income earned.

The State has classified its investments into three risk categories. Category 1 includes investments that were insured or registered or for which the securities were held by a State entity or its agent in the entity's name. Category 1 also includes investments for which a State entity has safekeeping responsibilities but no equity or ownership interest or control. Category 2 includes uninsured and

unregistered investments for which the securities were held by the counterparty's trust department or agent in a State entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in a State entity's name. The State's investments by risk category (expressed in thousands) at June 30, 2002, were as follows:

Primary Government	Category			Reported Amount	Fair Value
	1	2	3		
U.S. government securities.....	\$ 3,725,126	\$ 423,567	\$ 10,164	\$ 4,158,857	\$ 4,184,283
Corporate bonds.....	8,543,122	35,715	52	8,578,889	8,580,081
Municipal bonds.....	557,000	—	19,839	576,839	576,839
Equity securities.....	2,213,838	2,514	537	2,216,889	2,216,889
Repurchase agreements.....	2,516,936	4,490	37,054	2,558,480	2,558,480
Collateralized mortgage obligations.....	571,637	—	—	571,637	571,637
Asset-backed securities.....	205,798	—	—	205,798	205,798
Commercial paper.....	1,645,108	—	6,972	1,652,080	1,652,080
Securities lending program					
Investments from cash collateral					
Corporate bonds.....	—	—	3,772,626	3,772,626	3,772,626
Repurchase agreements.....	—	—	110,914	110,914	110,914
Other.....	1,212	43,662	4,683	49,557	46,181
Subtotals.....				24,452,566	24,475,808
Not categorized:					
Mutual funds.....				2,687,640	2,687,640
Securities lending program					
U.S. government securities.....				2,703,406	2,703,406
Corporate bonds.....				269,045	269,045
Equity securities.....				784,189	784,189
Totals—primary government.....	\$ 19,979,777	\$ 509,948	\$ 3,962,841	\$ 30,896,846	\$ 30,920,088

Notes to the Financial Statements

Discretely Presented Component Units	Category			Reported Amount	Fair Value
	1	2	3		
U.S. government securities.....	\$ 352,575	\$ —	\$ 72,859	425,434	425,434
Repurchase agreements.....	164,655	19,748	—	184,403	184,403
Securities lending program					
Investments from cash collateral					
Corporate bonds.....	—	—	1,891	1,891	1,891
Other.....	—	—	118	118	118
Subtotals.....				611,846	611,846
Not categorized:					
Securities lending program					
U.S. government securities.....				1,829	1,829
Investment in primary					
government's investment pool.....				3	3
Mutual funds.....				8,300	8,300
Totals—discretely presented component units.....	\$ 517,230	\$ 19,748	\$ 74,868	\$ 621,978	\$ 621,978

At June 30, 2002, the State held collateralized mortgage obligations, primarily in its pension trust funds. These securities were purchased to protect the State's pension trust funds from principal prepayment risk during an environment of declining interest rates and to provide incremental yield above that available on corporate securities with similar terms. These securities also provide diversification in the pension trust fund investment portfolios and maintain the high quality of government-sponsored instruments in the portfolios. It is estimated that these securities will provide future cash inflows on a time schedule that approximately matches the outflows associated with pension trust fund liabilities. The major rating agencies rate these highly marketable securities AAA.

The asset-backed securities held by the State at June 30, 2002, also primarily in the pension trust funds, had an average life of one to three years and a legal final maturity of two to five years. These securities represented an undivided ownership interest in a trust consisting of automobile loan and utility receivables and provided incremental yields above other securities with similar maturities without increasing the risk of the investment portfolios. The major credit rating agencies rate these asset-backed securities as AAA.

The State's pension trust fund investment portfolios held other asset-backed securities issued by the South Carolina Tobacco Settlement Revenue Management Authority, a blended component unit presented within the State's governmental funds. These securities are rated Aa3 and have an average life of 4.12 years with a legal final maturity during 2016.

The fiscal year for the Public Service Authority, a major discretely presented component unit, ends December 31. Included in the Public Service Authority's investments, carried at fair value, are

nuclear decommissioning funds of \$84.044 million with related unrealized holding gains of \$10.721 million. All of the Authority's investments, with the exception of decommissioning funds, are limited to a maturity of ten years or less.

c. Securities Lending Programs

By law, the State's primary government may lend securities from its investment portfolios on a collateralized basis to third parties, primarily financial institutions, with a simultaneous agreement to return the collateral for the same securities in the future. The State may lend United States Government securities, corporate bonds, other securities and equities for collateral in the form of cash or other securities. The contracts with the State's custodians require them to indemnify the State if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the State for income distributions by the securities' issuers while the securities are on loan.

The weighted average maturity of the State's collateral investments generally matched the maturity of the securities loans during the fiscal year and at June 30, 2002. At June 30, 2002, the State had no credit risk exposure to borrowers because the amounts the State owed the borrowers exceeded the amounts the borrowers owed the State. Either the State or the borrower can terminate all securities loans on demand. There are no restrictions on the amount of the loans that can be made. For the fiscal year ended June 30, 2002, the State experienced no losses on its securities lending transactions because of borrower defaults.

The State receives primarily cash as collateral for its loaned securities. A small portion of the collateral received by the State at June 30, 2002, was in the form of securities. The market value of the

Notes to the Financial Statements

required collateral must meet or exceed 102.0% of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral. During the fiscal year ended June 30, 2002, the State met the 102.0% requirement. The State cannot pledge or sell collateral securities unless the borrower defaults. The lending agent, on behalf of the State, invests cash collateral received. Accordingly, at June 30, 2002, the State recorded these investments of cash collateral as assets in the accompanying financial statements. Corresponding liability amounts also have been recorded because the State must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2002, the fair value of the State's securities on loan was \$3.758 billion, and they are uncategorized as to

custodial credit risk in the table in subsection b (Investments) above. For the State's cash collateral investments, the table includes the reported amount, fair value, and custodial credit risk by investment type.

NOTE 6: RECEIVABLES

The fund financial statements report receivables net of applicable allowances. Gross receivables for the State's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, and the applicable allowances (expressed in thousands) at June 30, 2002, were:

Receivables	Major Governmental Funds					
	Departmental		Local Government	Department of Transportation		Subtotal Major Governmental Funds
	General	Operating		Special Revenue	State Tobacco Settlement	
Accounts.....	\$ 47,502	\$ 133,486	\$ 23,982	\$ 10,044	\$ 1,523	\$ 216,537
Taxes	664,777	7,918	—	7,444	—	680,139
Loans and notes.....	37	536	294,521	6,436	—	301,530
Federal and other grantors.....	12,273	442,039	—	87,030	—	541,342
Restricted loans.....	—	—	368,588	—	—	368,588
Gross receivables.....	724,589	583,979	687,091	110,954	1,523	2,108,136
Allowance for uncollectibles.....	(79,872)	(30,562)	—	—	—	(110,434)
Total net receivables.....	\$ 644,717	\$ 553,417	\$ 687,091	\$ 110,954	\$ 1,523	\$ 1,997,702

Notes to the Financial Statements

Receivables	Major Governmental Funds (Detail Above)	Major Enterprise Funds					Totals
	Higher Education	Unemployment Compensation Benefits	Housing Authority	Education Assistance Authority	Nonmajor and Other Funds		
Accounts.....	\$ 216,537	\$ 73,094	\$ 19,578	\$ 142	\$ 5,560	\$ 730,669	\$ 1,045,580
Taxes.....	680,139	—	—	—	—	153,944	834,083
Assessments.....	—	—	44,305	—	—	—	44,305
Student loans.....	—	2,239	—	—	307,842	11,429	321,510
Loans and notes.....	301,530	70,558	—	23,254	—	11,048	406,390
Federal and other grantors.....	541,342	71,946	3,360	987	—	2,658	620,293
Restricted loans.....	368,588	50,772	—	544,398	—	16,790	980,548
Gross receivables.....	2,108,136	268,609	67,243	568,781	313,402	926,538	4,252,709
Allowance for uncollectibles.....	(110,434)	(5,797)	(7,658)	—	—	(117,550)	(241,439)
Allowance for contract adjustments.....	—	—	—	—	—	(25,472)	(25,472)
Total net receivables.....	\$ 1,997,702	\$ 262,812	\$ 59,585	\$ 568,781	\$ 313,402	\$ 783,516	\$ 3,985,798

NOTE 7: DETAILS OF RESTRICTED ASSETS

The purposes and amounts of the State's restricted assets at June 30, 2002 (expressed in thousands) are as follows:

Asset/Restricted For	Governmental Activities	Business- type Activities	Component Units
Current:			
Cash and cash equivalents			
Debt service.....	\$ 36,185	\$ 59,454	\$ 100,343
Capital projects.....	—	60,299	1,058
Student loan programs.....	—	1,097	—
Donor/sponsor specified.....	—	14,586	—
Second Injury Fund claims.....	—	47,124	—
Other.....	—	1,394	361
Total cash and cash equivalents.....	\$ 36,185	\$ 183,954	\$ 101,762
Investments			
Debt service.....	\$ 115,291	\$ 316	\$ 73,233
Donor/sponsor specified.....	—	273	—
Endowments.....	—	58	—
Total investments.....	\$ 115,291	\$ 647	\$ 73,233
Student loans receivable			
Student loan programs.....	\$ —	\$ 655	\$ —
Other			
Debt service.....	\$ 2,497	\$ 200	\$ —
Second Injury Fund claims.....	—	742	—
Total other.....	\$ 2,497	\$ 942	\$ —

Asset/Restricted For	Governmental Activities	Business- type Activities	Component Units
Noncurrent:			
Cash and cash equivalents			
Debt service.....	\$ 494,319	\$ 157,445	\$ 120
Capital projects.....	201,791	48,074	106,064
Student loan programs.....	—	9,669	—
Endowments.....	—	14,790	—
Nuclear decommissioning liability.....	—	—	2,975
Other.....	—	490	910
Total cash and cash equivalents.....	\$ 696,110	\$ 230,468	\$ 110,069
Investments			
Debt service.....	\$ —	\$ 14,383	\$ 72,504
Capital projects.....	—	124	38,243
Student loan programs.....	—	468	—
Donor/sponsor specified.....	—	4,517	—
Endowments.....	—	33,079	—
Nuclear decommissioning liability.....	—	—	38,346
Other.....	—	—	260
Total investments.....	\$ —	\$ 52,571	\$ 149,353
Loans receivable			
Debt service.....	\$ 368,588	\$ 560,338	\$ —
Student loans receivable			
Student loan programs.....	\$ —	\$ 50,557	\$ —
Other			
Debt service.....	\$ 5,508	\$ 4,851	\$ —
Capital projects.....	—	—	17
Other.....	—	5	—
Total other.....	\$ 5,508	\$ 4,856	\$ 17

NOTE 8: CAPITAL ASSETS

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2002, for the primary government was as follows:

Notes to the Financial Statements

	Beginning Balances July 1, 2001 (Restated)	Increases	Decreases	Ending Balances June 30, 2002
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 556,225	\$ 76,433	\$ (3,082)	\$ 629,576
Construction in progress.....	2,480,223	930,492	(207,719)	3,202,996
Works of art and historical treasures.....	957	9	—	966
<i>Total capital assets not being depreciated....</i>	<u>3,037,405</u>	<u>1,006,934</u>	<u>(210,801)</u>	<u>3,833,538</u>
<i>Capital assets being depreciated:</i>				
Depreciable land improvements.....	49,576	363	—	49,939
Infrastructure (road and bridge network).....	6,668,697	164,126	(2,906)	6,829,917
Buildings and improvements.....	1,250,353	47,590	(894)	1,297,049
Vehicles.....	512,913	18,137	(16,563)	514,487
Machinery and equipment.....	397,262	22,913	(24,855)	395,320
Depreciable works of art and historical treasures.....	—	8	—	8
Intangibles.....	13,134	948	—	14,082
Total capital assets being depreciated, at historical cost.....	<u>8,891,935</u>	<u>254,085</u>	<u>(45,218)</u>	<u>9,100,802</u>
Less accumulated depreciation for:				
Depreciable land improvements.....	(29,182)	(1,563)	—	(30,745)
Infrastructure (road and bridge network).....	(1,562,093)	(95,171)	2,336	(1,654,928)
Buildings and improvements.....	(423,765)	(29,082)	496	(452,351)
Vehicles.....	(310,906)	(39,857)	14,341	(336,422)
Machinery and equipment.....	(261,560)	(30,990)	18,896	(273,654)
Intangibles.....	(5,701)	(2,299)	—	(8,000)
Total accumulated depreciation.....	<u>(2,593,207)</u>	<u>(198,962)</u>	<u>36,069</u>	<u>(2,756,100)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>6,298,728</u>	<u>55,123</u>	<u>(9,149)</u>	<u>6,344,702</u>
Capital assets for governmental activities, net.....	<u>\$ 9,336,133</u>	<u>\$ 1,062,057</u>	<u>\$ (219,950)</u>	<u>\$ 10,178,240</u>

Notes to the Financial Statements

	Beginning Balances July 1, 2001 (Restated)	Increases	Decreases	Ending Balances June 30, 2002
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 137,763	\$ 16,922	\$ (1,439)	\$ 153,246
Construction in progress.....	199,579	197,988	(66,543)	331,024
Works of art and historical treasures.....	16,699	—	—	16,699
<i>Total capital assets not being depreciated...</i>	<u>354,041</u>	<u>214,910</u>	<u>(67,982)</u>	<u>500,969</u>
<i>Capital assets being depreciated:</i>				
Depreciable land improvements.....	54,171	3,806	—	57,977
Buildings and improvements.....	2,300,963	120,939	(2,599)	2,419,303
Vehicles.....	32,538	3,628	(1,519)	34,647
Machinery and equipment.....	480,350	52,102	(25,208)	507,244
Depreciable works of art and historical treasures.....	6,967	—	—	6,967
Intangibles.....	15,131	1,200	(4,025)	12,306
Total capital assets being depreciated, at historical cost.....	<u>2,890,120</u>	<u>181,675</u>	<u>(33,351)</u>	<u>3,038,444</u>
Less accumulated depreciation for:				
Depreciable land improvements.....	(24,081)	(2,343)	—	(26,424)
Buildings and improvements.....	(873,712)	(67,086)	1,331	(939,467)
Vehicles.....	(25,730)	(1,724)	1,495	(25,959)
Machinery and equipment.....	(309,298)	(42,235)	20,731	(330,802)
Depreciable works of art and historical treasures.....	(4,400)	(202)	—	(4,602)
Intangibles.....	(6,660)	(1,779)	1,985	(6,454)
Total accumulated depreciation.....	<u>(1,243,881)</u>	<u>(115,369)</u>	<u>25,542</u>	<u>(1,333,708)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>1,646,239</u>	<u>66,306</u>	<u>(7,809)</u>	<u>1,704,736</u>
Capital assets for business-type activities, net.....	<u>\$ 2,000,280</u>	<u>\$ 281,216</u>	<u>\$ (75,791)</u>	<u>\$ 2,205,705</u>

Capital asset activity (expressed in thousands) for the fiscal year ended June 30, 2002, for the State's major discretely presented component units was as follows:

Notes to the Financial Statements

	Beginning Balances July 1, 2001 (Restated)	Increases	Decreases	Ending Balances June 30, 2002
Public Service Authority:				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 82,049	\$ 10,534	\$ (4,813)	\$ 87,770
Construction in progress.....	331,794	213,252	(134,334)	410,712
<i>Total capital assets not being depreciated.....</i>	<u>413,843</u>	<u>223,786</u>	<u>(139,147)</u>	<u>498,482</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements (utility plant).....	3,312,690	110,621	(28,200)	3,395,111
Vehicles.....	22,299	8,463	(1,338)	29,424
Machinery and equipment.....	16,935	2,988	(1,536)	18,387
Intangibles.....	32,242	6,432	—	38,674
Total capital assets being depreciated, at historical cost.....	<u>3,384,166</u>	<u>128,504</u>	<u>(31,074)</u>	<u>3,481,596</u>
Less accumulated depreciation for:				
Buildings and improvements (utility plant).....	(1,348,778)	(96,578)	28,200	(1,417,156)
Vehicles.....	(9,079)	(7,420)	1,338	(15,161)
Machinery and equipment.....	(6,895)	(2,579)	1,536	(7,938)
Intangibles.....	(22,730)	(4,327)	—	(27,057)
Total accumulated depreciation.....	<u>(1,387,482)</u>	<u>(110,904)</u>	<u>31,074</u>	<u>(1,467,312)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>1,996,684</u>	<u>17,600</u>	<u>—</u>	<u>2,014,284</u>
Public Service Authority, net.....	<u>\$ 2,410,527</u>	<u>\$ 241,386</u>	<u>\$ (139,147)</u>	<u>\$ 2,512,766</u>

	Beginning Balances July 1, 2001 (Restated)	Increases	Decreases	Ending Balances June 30, 2002
State Ports Authority:				
<i>Capital assets not being depreciated:</i>				
Land and improvements.....	\$ 134,712	\$ 8,217	\$ —	\$ 142,929
Construction in progress.....	113,229	21,774	(94,155)	40,848
<i>Total capital assets not being depreciated.....</i>	<u>247,941</u>	<u>29,991</u>	<u>(94,155)</u>	<u>183,777</u>
<i>Capital assets being depreciated:</i>				
Depreciable land improvements.....	125,922	21,026	(4)	146,944
Buildings and improvements.....	206,458	51,301	(11,424)	246,335
Machinery and equipment.....	73,720	5,107	(4,243)	74,584
Total capital assets being depreciated, at historical cost.....	<u>406,100</u>	<u>77,434</u>	<u>(15,671)</u>	<u>467,863</u>
Less accumulated depreciation for:				
Depreciable land improvements.....	(74,271)	(5,502)	—	(79,773)
Buildings and improvements.....	(116,832)	(9,162)	10,080	(115,914)
Machinery and equipment.....	(32,045)	(6,080)	3,782	(34,343)
Total accumulated depreciation.....	<u>(223,148)</u>	<u>(20,744)</u>	<u>13,862</u>	<u>(230,030)</u>
<i>Total capital assets being depreciated, net.....</i>	<u>182,952</u>	<u>56,690</u>	<u>(1,809)</u>	<u>237,833</u>
State Ports Authority, net.....	<u>\$ 430,893</u>	<u>\$ 86,681</u>	<u>\$ (95,964)</u>	<u>\$ 421,610</u>

Notes to the Financial Statements

	Beginning Balances July 1, 2001 (Restated)	Increases	Decreases	Ending Balances June 30, 2002
Connector 2000 Association, Inc.:				
<i>Capital assets being depreciated:</i>				
Infrastructure (toll road).....	\$ 179,774	\$ 8,513	\$ —	\$ 188,287
Machinery and equipment.....	—	440	—	440
Total capital assets being depreciated, at historical cost.....	179,774	8,953	—	188,727
Less accumulated depreciation for:				
Infrastructure (toll road).....	—	(3,830)	—	(3,830)
Machinery and equipment.....	—	(88)	—	(88)
Total accumulated depreciation.....	—	(3,918)	—	(3,918)
Total capital assets being depreciated, net.....	179,774	5,035	—	184,809
Connector 2000 Association, Inc., net.....	\$ 179,774	\$ 5,035	\$ —	\$ 184,809

	Beginning Balances July 1, 2001	Increases	Decreases	Ending Balances June 30, 2002
Lottery Commission:				
<i>Capital assets being depreciated:</i>				
Buildings and improvements.....	\$ —	\$ 579	\$ —	\$ 579
Vehicles.....	—	48	—	48
Machinery and equipment.....	—	17,686	—	17,686
Total capital assets being depreciated, at historical cost.....	—	18,313	—	18,313
Less accumulated depreciation for:				
Buildings and improvements.....	—	(18)	—	(18)
Vehicles.....	—	(7)	—	(7)
Machinery and equipment.....	—	(1,445)	—	(1,445)
Total accumulated depreciation.....	—	(1,470)	—	(1,470)
Total capital assets being depreciated, net.....	—	16,843	—	16,843
Lottery Commission, net.....	\$ —	\$ 16,843	\$ —	\$ 16,843

Capitalization limits for most categories increased beginning July 1, 2001, as described in Note 2b, and the State wrote off capitalized items below the new capitalization limits. The beginning balances shown above have been restated accordingly as described in Note 2e. Depreciation expense was charged to functions of the primary government and its major discretely presented component units as follows (expressed in thousands):

	Governmental Funds	Internal Service Funds	Total Governmental Activities
General government.....	\$ 5,891	\$ 8,213	\$ 14,104
Education.....	18,806	1,257	20,063
Health and environment.....	15,576	1,529	17,105
Social services.....	1,379	2,189	3,568
Administration of justice.....	23,057	1,425	24,482
Resources and economic development.....	7,471	284	7,755
Transportation.....	111,885	—	111,885
Total depreciation expense, governmental activities.....	<u>\$ 184,065</u>	<u>\$ 14,897</u>	<u>\$ 198,962</u>

Notes to the Financial Statements

	Business- Type Activities
Higher education.....	\$ 93,520
Housing Authority.....	32
Education Assistance Authority.....	49
Other.....	21,768
Total depreciation expense, business-type activities.....	<u>\$ 115,369</u>

	Major Component Units
Public Service Authority.....	\$ 110,904
State Ports Authority.....	20,744
Connector 2000 Association, Inc.....	3,918
South Carolina Lottery Commission.....	1,470

At June 30, 2002, the primary government had outstanding construction commitments for capital assets and other significant permanent improvement projects in progress that will not be capitalized when completed. Total outstanding construction commitments for capital and non-capital projects totaled \$716.551 million. Projects that will not be capitalized upon completion include those projects for replacements, repairs, and/or renovations to existing facilities. In addition, the primary government had outstanding commitments totaling \$2.937 million at June 30, 2002, related to information technology projects.

Outstanding construction commitments for major discretely presented component units were as follows: \$103.205 million for the Public Service Authority at December 31, 2001; \$20.551 million for the State Ports Authority at June 30, 2002; and \$2.471 million for the Connector 2000 Association, Inc., at December 31, 2001.

The total interest expense incurred by the State's enterprise and internal service funds during the current fiscal year was \$74.360 million and \$2.007 million, respectively. Of the amount incurred by the State's enterprise funds, \$2.889 million was included as part of the cost of capital assets under construction, net of interest earnings. The Public Service Authority, a major discretely presented component unit, incurred total interest costs of \$155.830 million during its fiscal year ended December 31, 2001, none of which was included in the cost of capital assets under construction. The State Ports Authority, a major discretely presented component unit, incurred total interest costs of \$5.209 million during its fiscal year ended June 30, 2002, of which \$1.478 million was included as part of the cost of capital assets under construction. The Connector 2000 Association, Inc., a major discretely presented component unit, incurred total interest costs of \$13.272 million during its fiscal year ended December 31, 2001, of which \$1.841 million was included as part of the cost of capital assets under construction. The Lottery Commission, a major discretely presented component unit, incurred total interest costs of \$348 thousand during its fiscal year ended

June 30, 2002, none of which was included in the cost of capital assets under construction.

During the fiscal year ended June 30, 2002, two entities reported in the State's enterprise funds entered into commitments to sell land. Specifically, the Higher Education Fund, a major enterprise fund, completed an \$8.100 million land sale in November 2002, and an entity reported in the non-major enterprise funds completed a \$2.140 million land sale in July 2002.

NOTE 9: RETIREMENT PLANS

Note 1c describes the basis of accounting that the State's five defined benefit pension plans use to report pension trust fund activity. Note 5b specifies the method used to value pension trust fund investments.

a. Plan Descriptions

The South Carolina Retirement Systems (the System), a part of the State Budget and Control Board, administers four defined benefit retirement plans: the South Carolina Retirement System (SCRS), the South Carolina Police Officers' Retirement System (PORS), the Retirement System for Members of the General Assembly of the State of South Carolina (GARS), and the Retirement System for Judges and Solicitors of the State of South Carolina (JSRS). The System issues a publicly available Comprehensive Annual Financial Report that includes required supplementary information for all four plans. The report may be obtained by writing to:

The South Carolina Retirement System
Fontaine Business Center
202 Arbor Lake Drive
Columbia, South Carolina 29223

SCRS, established by Section 9-1-20 of the South Carolina Code of Laws, is a cost-sharing multiple-employer defined benefit pension plan that benefits employees of public schools, the State, and its political subdivisions. For most employees, membership is required as a condition of employment, unless exempted by State law. Both employers and employees must contribute. Benefits vest after five years of service. Vested members who retire at age sixty-five or with twenty-eight years of service at any age receive an annual benefit, payable monthly, for life. The benefit is based on length of service and average final compensation, an annualized average of the employee's highest twelve consecutive quarters' compensation. The annual benefit amount is 1.82% of average final compensation times years of service. Reduced benefits are payable as early as age fifty-five.

PORS, established by Section 9-11-20 of the South Carolina Code of Laws, is a cost-sharing multiple-employer defined benefit pension plan that benefits police officers and fire fighters employed by the State or its political subdivisions. For most employees, membership is required as a condition of employment, unless exempted by State law. Both employers and employees must contribute. Benefits

Notes to the Financial Statements

vest after five years of service. Vested members who retire with twenty-five years of service receive an annual benefit, payable monthly for life. The benefit is based on length of service and average final compensation, an annualized average of the employee's highest twelve consecutive quarters' compensation. The annual benefit amount is 2.14% of average final compensation times years of service.

GARS, established by Section 9-9-20 of the South Carolina Code of Laws, is a single-employer defined benefit pension plan that benefits members of the South Carolina General Assembly. Membership is required as a condition of taking office as a member of the General Assembly, unless exempted by State law. Both the members of the General Assembly and the State must contribute. Benefits vest after eight years of service. Vested members who retire at age sixty or at any age with thirty years of service receive an annual benefit, payable monthly, for life. The annual benefit amount is 4.82% of earnable compensation times years of service. Earnable compensation is defined as forty days' pay at the rate currently paid to members of the General Assembly plus \$12 thousand.

JSRS, established by Section 9-8-20 of the South Carolina Code of Laws, is a single-employer defined benefit pension plan that benefits the judges of the State's Supreme Court, Court of Appeals, circuit courts, family courts, and the State's circuit solicitors. Membership is required as a condition of taking office, unless exempted by State law. Both judges and the State must contribute. Benefits vest after twelve years of service in a position as a judge or solicitor. Members may retire at age seventy with fifteen years of service, at age sixty-five with twenty years of service, or at any age with twenty-five years of service. Members receive a retirement benefit equal to 71.3% of the current active salary of the position occupied at retirement.

Information regarding the number of participating employers at June 30, 2002, is as follows:

	SCRS	PORS	GARS	JSRS
State and school.....	98	5	1	1
Other.....	536	255	—	—
Total participating employers.....	634	260	1	1

The plans provide retirement, death, and disability benefits to State employees; public school employees; and employees of counties, municipalities, and certain other State political subdivisions. Each plan is independent. Assets may not be transferred from one plan to another or used for any purpose other than to benefit each plan's participants.

b. Funding Policies

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement plans be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws prescribes requirements relating to membership, benefits, and employee/employer contributions for

each plan. The following paragraphs summarize those requirements.

By law, employee contribution requirements for the fiscal year ended June 30, 2002, were as follows:

Plan	Rate
SCRS	6.0% of earnable compensation
PORS	6.5% of earnable compensation
GARS	10.0% of earnable compensation
JSRS	7.0% of earnable compensation

Actuarially determined employer contribution rates for the four plans, expressed as percentages of compensation, for the fiscal year ended June 30, 2002, were as follows:

Plan	Rate
SCRS	7.70%
PORS	10.70%
JSRS	40.91%
GARS	73.05%

Under certain conditions, new employers entering the plans are allowed up to ten years to remit matching employer contributions resulting from their employees' purchase of prior service credits. Interest is assessed annually on the unpaid balance. The amounts outstanding at June 30, 2002, were \$2.079 million for SCRS and \$29 thousand for PORS.

c. Annual Pension Cost

Annual pension cost (dollars expressed in thousands) and related actuarial data for the State's single-employer defined benefit pension plans were as follows:

	GARS	JSRS
Annual pension cost.....	\$2,627	\$5,993
Employer contributions made.....	\$2,627	\$5,993
Actuarial valuation date.....	July 1, 2001	July 1, 2001
Actuarial cost method.....	Entry age	Entry age
Amortization method.....	Level percent, closed	Level percent, open
Remaining amortization period.....	23 years	30 years
Asset valuation method.....	5 year smoothed market	5 year smoothed market
Actuarial assumptions:		
Investment rate of return.....	7.25%	7.25%
Projected salary increases.....	2.00%	5.25%
Assumed inflation rate.....	4.25%	4.25%
Assumed cost-of-living adjustments.....	2.00%	4.25%

d. Trend Information

Trend information indicates the progress made in accumulating sufficient assets to pay benefits when due.

For the cost-sharing multiple-employer defined benefit pension plans in which the State participates, the State's required contributions in dollars (expressed in thousands) and the percentages of those amounts contributed for the three latest available years were as follows:

Notes to the Financial Statements

	Fiscal Year Ended					
	June 30, 2002		June 30, 2001		June 30, 2000	
	Required	% Contributed	Required	% Contributed	Required	% Contributed
SCRS—State:						
Primary government.....	\$ 181,217	100%	\$ 176,045	100%	\$ 164,900	100%
Component units.....	9,089	100%	8,808	100%	8,244	100%
PORS—State:						
Primary government.....	\$ 39,495	100%	\$ 40,079	100%	\$ 33,331	100%
Component units.....	25	100%	21	100%	20	100%

The following table presents the annual pension cost, percentage of annual pension cost contributed, and the net pension obligation for the three latest available years for the State's single-employer defined benefit plans (dollars expressed in thousands):

e. Funding Status and Progress

The following schedule (dollars expressed in thousands) describes the funding progress for the State's single-employer defined benefit plans for the three latest available years:

Plan	Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
GARS	2000	\$ 2,636	100%	\$ —
	2001	2,510	100%	—
	2002	2,627	100%	—
JSRS	2000	\$ 5,659	100%	\$ —
	2001	5,875	100%	—
	2002	5,993	100%	—

Notes to the Financial Statements

Plan	Actuarial Valuation Date July 1	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
GARS	1999	\$ 38,685	\$ 63,501	\$ 24,816	60.9%	\$ 4,979	498.4%
	2000	40,730	64,616	23,886	63.0%	4,858	491.7%
	2001	42,788	68,291	25,503	62.7%	4,761	535.7%
JSRS	1999	\$ 81,780	\$ 134,272	\$ 52,492	60.9%	\$ 12,748	411.8%
	2000	87,536	144,631	57,095	60.5%	13,214	432.1%
	2001	94,795	159,246	64,451	59.5%	14,109	456.8%

f. Receivables and Investments

June 30, 2002, for the four plans administered by the South Carolina Retirement Systems were as follows:

The principal components of receivables and investments (expressed in thousands) at

	SCRS	PORS	GARS	JSRS	Totals
Receivables:					
Contributions.....	\$ 104,606	\$ 11,480	\$ 59	\$ 330	\$ 116,475
Employer long-term.....	2,079	29	—	—	2,108
Accrued interest.....	168,595	19,158	421	944	189,118
Unsettled investment sales.....	93,767	11,190	216	487	105,660
Total receivables.....	\$ 369,047	\$ 41,857	\$ 696	\$ 1,761	\$ 413,361
Due from other funds.....	\$ 15,371	\$ 3,258	\$ —	\$ 81	\$ 18,710
Investments and invested securities lending collateral:					
United States government securities.....	\$ 2,054,141	\$ 205,538	\$ 6,534	\$ 3,778	\$ 2,269,991
United States government agencies and government-insured securities.....	1,856,920	254,778	4,250	11,060	2,127,008
Corporate bonds.....	4,742,174	562,439	12,195	29,025	5,345,833
Financial and other.....	2,629,239	276,543	3,891	9,017	2,918,690
Equities.....	4,943,877	577,705	11,506	24,968	5,558,056
Invested securities lending collateral.....	2,824,390	334,614	6,644	8,995	3,174,643
Total investments.....	\$ 19,050,741	\$ 2,211,617	\$ 45,020	\$ 86,843	\$ 21,394,221

Notes to the Financial Statements

g. Teacher and Employee Retention Incentive Program

The Teacher and Employee Retention Incentive (TERI) program, established by State law, became effective January 1, 2001. The program is a deferred retirement option available to SCRS members eligible for service retirement. Upon entering the TERI program, a member's status changes from active to retired. A TERI participant agrees to continue employment with an employer participating in the system for a specified period, not to exceed five years.

TERI participants retain the same status and employment rights they held upon entering the program but are not considered active employees for purposes of the group life insurance and disability retirement programs. A TERI retiree's monthly benefits are accrued and remain in the SCRS trust account during the TERI participation period, but no interest is accrued or paid thereon. Upon termination of employment or at the end of the TERI participation period (whichever is earlier), a retiree may roll over some or all of the accumulated TERI balance into a qualified, tax-sheltered retirement plan and/or receive a lump-sum distribution.

A total of 8,271 members were participating in the TERI program at June 30, 2002. The financial activity of the program (expressed in thousands) during the fiscal year ended June 30, 2002, was as follows:

Beginning balance	\$ 54,644
Additions	193,283
TERI distributions at termination.....	(18,337)
Ending balance.....	<u>\$ 229,590</u>

h. National Guard Pension System

Plan Description

The National Guard Pension System (NGPS) is a single-employer defined benefit pension plan administered by the State Adjutant General's Office. That office does not issue a separate financial report for the NGPS. Accordingly, the financial statements for the NGPS are presented below:

Statement of Plan Net Assets National Guard Pension System June 30, 2002 (Expressed in Thousands)

ASSETS	
Cash and cash equivalents.....	\$ 10,515
Accrued interest receivable.....	151
Invested securities lending collateral.....	772
Total assets.....	<u>11,438</u>
LIABILITIES	
Securities lending collateral.....	772
Total liabilities.....	<u>772</u>
NET ASSETS	
Held in trust for pension benefits.....	<u>\$ 10,666</u>

Statement of Changes in Plan Net Assets National Guard Pension System For the Fiscal Year Ended June 30, 2002 (Expressed in Thousands)

Additions:	
Employer retirement contributions.....	\$ 2,255
Investment income.....	775
Total additions.....	<u>3,030</u>
Deductions:	
Regular retirement benefits.....	2,127
Administrative expense.....	23
Transfers out.....	144
Total deductions.....	<u>2,294</u>
Net increase in plan net assets.....	736
Net assets held in trust for pension benefits:	
Beginning of year.....	9,930
End of year.....	<u>\$ 10,666</u>

The NGPS, established by Section 25-1-3210 of the South Carolina Code of Laws, provides benefits to National Guard members who served in South Carolina prior to July 1, 1993. National Guard members are considered to be federal government employees. The federal government pays Guard members' drill pay and summer camp pay. In accordance with State law, the State's General Fund pays Guard members' salaries only if the Governor activates the National Guard for service to the State.

Notes to the Financial Statements

The pension benefit that the State provides is intended only to supplement the retirement benefit that Guard members receive from the federal government. Members who retire at age sixty with twenty years of military service, including at least fifteen years of South Carolina National Guard duty, ten of which immediately precede retirement, and who have received an honorable discharge, are entitled to monthly pension benefits. The pension amount is equal to \$50 per month for twenty years of creditable service with an additional \$5 per month for each additional year of service, provided that the total pension shall not exceed \$100 per month.

The following table shows the number of employees by type of membership as of June 30, 2002, the date of the latest biennial actuarial valuation:

	NGPS
Retirees and beneficiaries receiving benefits.....	2,213
Terminated employees entitled to benefits but not yet receiving them.....	2,901
Active employees.....	4,010
Total participants.....	9,124

National Guard members who served in South Carolina prior to July 1, 1993, are covered by the plan. NGPS is closed to new entrants.

Receivables and Investments

The assets of the NGPS consist of cash and cash equivalents, accounts receivable, and invested securities lending collateral. At June 30, 2002, all of the \$151 thousand in accounts receivable represented accrued interest.

Contributions and Reserves

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement plans be funded on a sound actuarial basis. Title 25 of the South Carolina Code of Laws prescribes requirements relating to membership, benefits, and employer contributions for the NGPS.

In accordance with State law, the State Adjutant General's Office administers the plan. Administrative charges are financed through investment earnings. The State funded the plan on an actuarial basis for the fiscal years ended June 30, 1994, through June 30, 1996. From July 1, 1996, through the present time, however, the plan has not been fully funded in accordance with

actuarial recommendations. Members do not contribute.

The net assets of the National Guard Pension System are required to be reserved for the purpose of paying the supplemental retirement benefits to eligible members. The balance in the reserve at June 30, 2002, was \$10.666 million.

Funding Policy and Annual Pension Cost

The following table provides information concerning funding policies and annual pension costs (dollars expressed in thousands):

	NGPS
Annual pension cost.....	\$3,060
Employer contributions made.....	\$2,255
Actuarial valuation date.....	June 30, 2002
Actuarial cost method.....	Entry age normal
Amortization method.....	Level dollar, open
Remaining amortization period.....	30 years
Asset valuation method.....	Market
Actuarial assumptions:	
Investment rate of return.....	7.25%
Projected salary increases.....	Not applicable
Assumed inflation rate.....	4.25%
Assumed cost-of-living adjustments.....	Not applicable

The following represents the components of the net pension obligation (NPO) for the NGPS, at June 30, 2002 (expressed in thousands):

	NGPS
Actuarially required contribution (ARC).....	\$ 2,996
Interest on the NPO.....	415
Adjustment to the ARC.....	(351)
Annual pension cost.....	3,060
Contributions made.....	2,255
Increase in NPO.....	805
NPO beginning of year (restated).....	5,720
NPO end of year.....	\$ 6,525

The State recognized \$2.112 million of expenditures in the General Fund to pay a portion of the current fiscal years' actuarially determined contribution.

The following schedule (dollars expressed in thousands) describes the funding progress for the NGPS for each of the three most recent actuarial valuations:

Notes to the Financial Statements

Biennial Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1998	\$ 8,640	\$ 41,478	\$ 32,838	20.8%	\$ 40,333	81.4%
2000	11,089	43,427	32,338	25.5%	40,789	79.3%
2002	12,608	44,678	32,070	28.2%	45,711	70.2%

Trend Information

Trend information indicates the progress made in accumulating sufficient assets to pay benefits when due. The following table presents the annual pension cost, percentage of annual pension cost contributed, and the net pension obligation for the latest three fiscal years for the plan (dollars expressed in thousands):

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2000	\$ 3,157	78.4%	\$ 4,885
2001	2,947	71.7%	5,720
2002	3,060	73.7%	6,525

i. Defined Contribution Plans

As an alternative to membership in SCRS, certain faculty and administrative staff of the institutions presented in the Higher Education Fund, a major enterprise fund, may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan established under State law. Likewise, certain public school employees may elect to participate in the State Optional Retirement Program (State ORP). ORP and State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for the ORP or State ORP benefits. Rather, the benefits are the liability of the investment providers and are governed by the terms of the contracts that those providers issue. Accordingly, balances of the ORP and the State ORP are not reported in the accompanying financial statements.

Under State law, contributions to the ORP and the State ORP are at the same rates as for the SCRS (see Section b, Funding Policies). Covered payroll amounts as well as the amounts of actual employer and employee contributions to the ORP and State

ORP are summarized in the following schedule (expressed in thousands) for the fiscal year ended June 30, 2002:

	ORP	State ORP
Covered payroll.....	\$ 206,200	\$ 54,300
Employee contributions.....	12,400	3,300
Employer contributions.....	10,300	2,700

NOTE 10: POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State provides post-employment health and dental benefits to certain former State employees and to certain of their surviving dependents. Generally, retirees are eligible for the benefits if they have established at least ten years of retirement service credit, whereas other former employees are eligible only if they have established at least twenty years of retirement service credit. Benefits become effective when the former employee retires under a state retirement system. Currently, 23,848 retirees meet these eligibility requirements.

Eligible retirees choose between two health insurance plans underwritten by the State, the Economy Plan and the Standard Plan. In accordance with contractual provisions of the plans, participants must meet specified annual deductible requirements. The Standard Plan pays 80.0% of allowable claims in excess of deductibles, and the Economy Plan pays 75.0% of allowable claims in excess of deductibles. Participants pay co-payments for prescriptions. The State pays 100.0% of allowable claims after the participant has paid the specified annual out-of-pocket limit prescribed by each plan. Both plans disallow claims in excess of specified annual and lifetime maximums. In addition, State health

Notes to the Financial Statements

benefits are reduced if the participant receives or qualifies to receive Medicare benefits. Effective January 1, 2002, plan benefits were increased to cover certain items not previously covered. Benefit reductions included new hospital deductibles, increases in prescription copayments, increases in out-of-pocket maximums, and increases/payment limits for brand-name prescription drugs.

The State also underwrites a dental care plan. Contractual provisions of the plan specify deductible requirements as well as annual and lifetime maximums.

The State finances both health plans and the dental plan on a pay-as-you-go basis. During the fiscal year ended June 30, 2002, the State recognized expenses (net of participant contributions) of \$89.517 million to provide health and dental benefits to State participants in post employment status. The post employment benefit expense for the fiscal year ended June 30, 2002, was approximately \$5.000 million less than the previous year's expense, but the plan's management could not estimate the amount of the total decrease that was attributable to the changes in benefits that became effective on January 1, 2002.

NOTE 11: INSURANCE ACTIVITIES

a. Insurance Reserve Fund

The State generally does not purchase commercial insurance for the risks of losses for property damage, including theft of, damage to, and destruction of assets; automobile liability; tort liability; and medical professional liability. Instead, State management believes it is more economical to manage its risks internally and set aside assets for claim settlement in its Insurance Reserve Fund (IRF), within the internal service funds. The IRF services claims for risk of loss to which the State is exposed, including the following: property insurance on government owned buildings, the contents of such buildings, equipment, and automobiles; automobile liability insurance on government owned vehicles and school buses; tort liability insurance for government premises and operations; and medical professional liability for hospitals. Although the State is the predominant participant in the IRF, county and municipal governments, school districts and special purpose political subdivisions also participate. The IRF allocates the cost of providing claims servicing and claims payment by charging each participant an actuarially determined "premium."

The IRF reports liabilities when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Amounts for allocated and unallocated claims adjustment expenses have been included in the calculation of the unpaid claims liability. The liability is reported net of receivables for salvage, subrogation, and reinsurance. The unpaid claims liability of \$185.004 million at June 30, 2002, includes a provision for claims in the process of review and for claims incurred but not reported. The accompanying financial statements

report liabilities for claims in the process of review and for claims incurred but not reported as policy claims. The liability for claims incurred but not reported is an actuarial estimate based on the most current historical claims experience of previous payments, changes in number of members and participants, inflation, and award trends. This process does not necessarily result in an exact amount. The IRF continually reviews estimates of liabilities for incurred claims and revises those estimates as changes occur. The current year's operating statement reflects the revisions.

Changes in the balances of claims liabilities during the past two years were as follows (expressed in thousands):

Fiscal Year Ended June 30	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2001	\$ 151,149	\$ 52,513	\$ (35,419)	\$ 168,243
2002	168,243	57,242	(40,481)	185,004

The IRF purchases aircraft and ocean marine insurance in areas in which the IRF has limited expertise.

The IRF purchases reinsurance to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability. The IRF purchases reinsurance for catastrophic losses in the area of property insurance for losses above \$2.000 million per location and \$10.000 million per occurrence. For medical professional liability insurance, the IRF acquires reinsurance for catastrophic losses for losses exceeding \$250 thousand per occurrence. Reinsurance permits partial recovery of losses from reinsurers; but the IRF, as direct insurer of the risks, remains primarily liable.

b. Employee Insurance Programs Fund

State law established the Employee Insurance Programs Fund (previously the Health and Disability Insurance Fund), part of the State's internal service funds, to provide health and dental insurance coverage for eligible employees and retirees of State agencies and school districts and to provide group life and long-term disability insurance coverage to eligible active State and public school employees. The State, the predominant participant, retains the risk of loss. Under the health insurance program, participants elect coverage through either a health maintenance organization or the State's self-insured plan. All dental, group life, and long-term disability coverage is through the State's self-insured plan. State funds and payroll deductions pay health and dental premiums for eligible State and public school employees. Agencies and school districts pay the employer share of premiums for retirees. Retirees directly pay their own share of premiums. Agencies and school districts pay the premiums for group life and long-term disability for their employees.

The Employee Insurance Programs Fund establishes claims liabilities when information

Notes to the Financial Statements

before the issuance of the financial statements indicates that it is probable that the Fund has incurred a reasonably estimable liability at the date of the financial statements. The calculation of the unpaid claims liability includes amounts for allocated and unallocated claims adjustment expenses. The unpaid claims liability of \$155,069 million at June 30, 2002, includes a provision for claims in the process of review and for claims incurred but not reported. The Fund reports liabilities both for claims in the process of review and for claims incurred but not reported as policy claims in the financial statements. The Fund actuarially estimates the liability for claims incurred but not reported based on the most current historical claims experience of previous payments, changes in number of members and participants, inflation, award trends, and estimates of health care trend changes (cost, utilization, and intensity of services). This process does not necessarily result in an exact amount. The Fund continually reviews estimates of liabilities for incurred claims and revises those estimates as changes occur. The current year's operating statement reflects the revisions.

Claim costs for long-term disability coverage are actuarially calculated using the one-year term cost method; the cost of coverage is the present value of all benefit payments that will be made on expected claims incurred during the year following the valuation date. Claim liabilities are equal to the present value, as of the valuation date, of all future payments to be made for disabilities and deaths up to that date. Actuarial assumptions include an interest rate of 7.25% for 2002, compounded annually. Of the total claims liability reported for the Employee Insurance Programs Fund at June 30, 2002, \$25,005 million relates to group life and long-term disability insurance coverage. The State does not discount its claims liabilities for health and dental insurance coverage to present value.

Changes in the balances of claims liabilities during the past two years were as follows (expressed in thousands):

Fiscal Year Ended June 30	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2001	\$ 157,439	\$ 776,657	\$ (793,067)	\$ 141,029
2002	141,029	916,728	(902,688)	155,069

c. State Accident Fund

State law established the State Accident Fund (the Fund), an internal service fund, to provide workers' compensation insurance coverage to State entities. Although the State is the Fund's predominant participant, counties, municipalities, and other political subdivisions of the State may also elect to participate. The State assumes the full risk for workers' compensation claims.

The Fund investigates, adjusts, and pays workers' compensation claims as awarded by the Workers' Compensation Commission for job-related accidental injury, disease, or death to covered

individuals. The Fund annually bills participating entities for estimated premiums based on the entity's estimated payroll. After the policy period ends, policyholders submit the details of the actual salaries paid. The Fund then adjusts the premium using the actual payroll data and a rating modifier based on claims experience.

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The claims liabilities include specific incremental claims adjustment expenses but not administrative expenses. The Fund deducts reasonably estimable amounts of salvage and subrogation and reinsurance recoverable, if any, on both settled and unsettled claims from the liability for unpaid claims. The Fund periodically recomputes claims liabilities using a variety of actuarial and statistical techniques to produce current estimates. The Fund charges or credits expense in the period when it adjusts claims liabilities. At June 30, 2002, the Fund's claims liability was \$68,321 million. Policy claims in the financial statements includes the liabilities for claims reported but not yet paid and for claims incurred but not reported. Because actual claims costs depend on such complex factors as inflation, changes in legal doctrines, and damage awards, computation of the claims liability does not necessarily result in an exact amount.

Changes in the balances of claims liabilities during the past two years were as follows (expressed in thousands):

Fiscal Year Ended June 30	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2001	\$ 56,326	\$ 35,089	\$ (34,263)	\$ 57,152
2002	57,152	59,572	(48,403)	68,321

The Fund has entered into a reinsurance agreement to reduce its exposure to catastrophic losses on insured events. Losses in excess of \$350 thousand are covered up to limits of statutory liability; the Fund retains the risk for the first \$350 thousand of loss. Reinsurance permits partial recovery of losses from reinsurers; but the Fund, as direct insurer of the risks, remains primarily liable.

d. Patients' Compensation Fund

The South Carolina Medical Malpractice Patients' Compensation Fund (PCF) is a nonmajor enterprise fund. The State accounts for the PCF as an insurance enterprise because the PCF primarily covers non-governmental entities. Accordingly, the PCF follows the guidance of FASB Statement 60, *Accounting and Reporting by Insurance Enterprises*.

State law created the PCF to pay that portion of any medical malpractice claim, settlement, or judgment against a licensed health care provider that exceeds certain limits. Those limits currently are \$200 thousand per incident or \$600 thousand in the aggregate for one year. In the event that the PCF incurs a liability exceeding \$200 thousand to any

Notes to the Financial Statements

person under a single occurrence, the PCF may not pay more than \$200 thousand per year until it has paid the claim in full. However, the PCF's Board of Governors may authorize payments in excess of \$200 thousand per year to avoid payment of interest.

Licensed health care providers include physicians and surgeons, directors, officers and trustees of hospitals, nurses, oral surgeons, dentists, pharmacists, chiropractors, hospitals, nursing homes, and any similar category of licensed health care providers. All providers licensed in South Carolina are eligible to participate upon remittance of the annual assessment fees.

The PCF actuarially establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. At June 30, 2002, the claims liability for the PCF was \$202.652 million. In the accompanying financial statements, the PCF reports as policy claims its liabilities for claims reported but not settled and for claims incurred but not reported. The PCF does not incur claim adjustment expenses because it provides only excess liability coverage. The length of time for which claims costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as medical technology, changes in doctrines of legal liability, and damage awards, the process for computing claims liabilities does not necessarily result in an exact amount. The PCF and its actuaries recompute claims liabilities annually, using a variety of actuarial and statistical techniques, to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit because the PCF and its actuaries rely both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. The PCF charges or credits expense, as appropriate, in the period when it adjusts claims liabilities.

e. Second Injury Fund

The State accounts for the South Carolina Second Injury Fund, a nonmajor enterprise fund, as a public benefit program rather than an insurance program primarily because its participants—workers' compensation insurance carriers and self-insured employers—do not transfer their risk to the Fund. The Fund services claims in cases where an individual with a preexisting permanent physical impairment incurs a subsequent disability from injury or accident arising out of and in the course of employment. Participants of the Fund, rather than the State, are ultimately responsible for these liabilities.

The Fund collects and invests assessments received from its participants and pays claims on behalf of its participants to the extent that Fund resources are available to pay such claims. The Fund reports these activities in its statement of cash flows. In accordance with accounting principles used by claims processors, however, the Fund reports as revenue only that portion of assessments and interest earnings intended to cover the Fund's

administrative costs, including capital costs. Likewise, the Fund records no claims expense, and it records claims liabilities only to the extent that Fund assets are available to pay such claims.

f. Discretely Presented Component Unit—Public Service Authority (Santee Cooper)

The Public Service Authority (Santee Cooper), a major discretely presented component unit with a fiscal year ended December 31, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; and errors and omissions. The Authority purchases commercial insurance to cover these risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. Policies are subject to deductibles ranging from \$5 thousand to approximately \$850 thousand with the exception of named storm losses, which carry deductibles up to \$3,000 million. In addition, a \$1,000 million self-insured layer exists between the Authority's primary and excess liability policies.

The Authority self-insures its risks related to auto, dental, and environmental incidents that do not arise out of an insured event. Automotive exposure is up to \$2,000 million per incident. Risk exposure for the dental plan is limited by plan provisions. There have not been any third-party claims for environmental damages for calendar year 2001.

The State reports all of the Authority's risk management activities within the Public Service Authority's accounts. The State reports the Authority's claims expenses and liabilities when it is probable that a loss has occurred and the amount of the loss is reasonably estimable.

At December 31, 2001, the amount of these liabilities was \$1.426 million. Changes in the reported liability in each of the past two years were as follows (expressed in thousands):

Fiscal Year Ended December 31	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2000	\$ 2,135	\$ 1,238	\$ (1,466)	\$ 1,907
2001	1,907	1,175	(1,656)	1,426

NOTE 12: LEASES

a. Lease Commitments

The State leases land, office facilities, equipment, and other assets under both capital and operating leases. The present value of future minimum capital lease payments and total minimum annual lease payments for capital leases recorded in the government-wide statement of net assets at June 30, 2002 (expressed in thousands), follow for the primary government and for the State's major discretely presented component units, respectively:

Notes to the Financial Statements

Fiscal Year Ending June 30	Governmental Activities	Business-type Activities	Totals
2003	\$ 2,167	\$ 8,545	\$ 10,712
2004	2,023	7,679	9,702
2005	1,984	6,253	8,237
2006	1,938	5,780	7,718
2007	620	4,934	5,554
2008 - 2012	565	13,549	14,114
2013 - 2017	—	13,099	13,099
2018 - 2022	—	5,244	5,244
Total minimum payments.....	9,297	65,083	74,380
Less: interest and executory costs.....	(1,112)	(18,450)	(19,562)
Present value of net minimum payments.....	\$ 8,185	\$ 46,633	\$ 54,818

Fiscal Year Ending June 30	State Ports Authority
2003	\$ 68
2004	30
2005	30
2006	6
Total minimum payments.....	134
Less: interest and executory costs.....	(17)
Present value of net minimum payments.....	\$ 117

Assets under capital leases recorded in the accompanying government-wide statement of net assets at June 30, 2002, were as follows (expressed in thousands):

Fiscal Year Ending December 31	Public Service Authority
2002	\$ 3,818
2003	3,819
2004	3,708
2005	3,604
2006	3,388
2007 - 2011	12,653
2012 - 2014	2,658
Total minimum payments.....	33,648
Less: interest and executory costs.....	(6,716)
Present value of net minimum payments.....	\$ 26,932

Assets Acquired Under Capital Leases	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Totals	Public Service Authority	State Ports Authority
Land and non-depreciable improvements.....	\$ —	\$ 5,911	\$ 5,911	\$ —	\$ —
Buildings and improvements.....	6,540	53,032	59,572	93,925	—
Machinery and equipment.....	8,938	9,884	18,822	—	163
Works of art and historical treasures.....	—	1,130	1,130	—	—
Assets acquired under capital leases before accumulated amortization.....	15,478	69,957	85,435	93,925	163
Less: accumulated amortization.....	(3,243)	(15,313)	(18,556)	(73,234)	(50)
Assets acquired under capital leases, net.....	\$ 12,235	\$ 54,644	\$ 66,879	\$ 20,691	\$ 113

For the primary government's fiscal year ended June 30, 2002, minimum rental payments under operating leases were \$70.752 million while contingent rental payments were \$4.431 million. The State's contingent rental payments are for copiers, with expense being determined on a cost-per-copy basis. For the Public Service Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$5.989 million.

For the State Ports Authority, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$848 thousand. For the Lottery Commission, a major discretely presented component unit, minimum rental payments under operating leases for the fiscal year totaled \$418 thousand. At June 30, 2002, future minimum payments under noncancelable operating leases with remaining terms in excess of one year (expressed in thousands) were as follows:

Notes to the Financial Statements

Fiscal Year Ending June 30	Primary Government	Component Unit— Lottery Commission
2003	\$ 35,440	\$ 621
2004	29,110	575
2005	19,717	545
2006	11,377	546
2007	8,393	256
2008 - 2012	14,138	3
2013 - 2017	4,688	—
2018 - 2022	3,256	—
2023 - 2027	1,456	—
2028 - 2032	63	—
Total minimum payments.....	\$ 127,638	\$ 2,546

At December 31, 2001, future minimum payments under noncancelable operating leases with remaining terms in excess of one year (expressed in thousands) for the Public Service Authority, a major discretely presented component unit, were as follows:

Fiscal Year Ending December 31	Component Unit—Public Service Authority
2002	\$ 4,373
2003	2,796
Total minimum payments.....	\$ 7,169

b. Facilities Leased to Others

At June 30, 2002, the State Ports Authority, a major discretely presented component unit, had leased to non-State parties certain land and facilities having a cost of approximately \$396.224 million and related accumulated depreciation of \$102.814 million. Future minimum rental payments to be received at June 30, 2002, under these operating leases (expressed in thousands) were as follows:

Fiscal Year Ending June 30	Component Unit—State Ports Authority
2003	\$ 21,951
2004	20,734
2005	12,872
2006	688
2007	652
2008-2012	3,203
Total.....	\$ 60,100

NOTE 13: BONDS, NOTES, AND CERTIFICATES OF PARTICIPATION PAYABLE

a. General Obligation Bonds

General obligation bonds are backed by the full faith, credit, and taxing power of the State. General obligation bonds (expressed in thousands) outstanding at June 30, 2002, were:

Governmental Activities	
Capital improvement bonds, 3.25% to 6.00%.....	\$ 931,044
State highway bonds, 3.50% to 6.50%.....	651,135
State school facilities bonds, 3.00% to 5.75%.....	621,950
Subtotal—governmental activities.....	2,204,129
Business-type Activities, Higher Education Fund	
State institution bonds, 4.25% to 7.00%.....	134,235
Total—general obligation bonds payable.....	\$ 2,338,364

At June 30, 2002, \$200.304 million of capital improvement bonds were authorized but unissued.

At June 30, 2002, future debt service requirements (expressed in thousands) for general obligation bonds were:

Year Ending June 30	Governmental Activities		Business-type Activities (Higher Education Fund)	
	Principal	Interest	Principal	Interest
2003	\$ 183,712	\$ 103,153	\$ 8,955	\$ 6,728
2004	148,285	96,045	7,400	6,257
2005	160,963	88,443	7,805	5,844
2006	160,954	80,707	8,350	5,407
2007	148,795	72,899	8,670	4,970
2008-2012	709,834	255,842	38,690	18,667
2013-2017	539,490	102,752	34,920	9,647
2018-2022	146,655	17,302	19,445	2,347
2023-2027	1,210	55	—	—
Total debt service requirements.....	2,199,898	\$ 817,198	134,235	\$ 59,867
Unamortized premiums.....	4,231		—	
Total principal outstanding.....	\$ 2,204,129		\$ 134,235	

The Department of Transportation Special Revenue Fund, a major governmental fund, pays the debt service for the State highway bonds. The General Fund pays the debt service for the other general obligation bonds recorded for governmental activities. The Higher Education Fund, a major enterprise fund, pays the debt service for general obligation bonds recorded in that fund.

Rather than directly limiting the amount of outstanding general obligation debt, State law imposes a limitation on annual debt service expenditures. The legal annual debt service margin at June 30, 2002, was \$8.491 million in total for all institution bonds, \$19.925 million for highway bonds, and \$29.517 million for general obligation bonds excluding institution and highway bonds.

Notes to the Financial Statements

b. Limited Obligation Bonds

Limited obligation bonds are not backed by the full faith, credit, and taxing power of the State. Limited obligation bonds outstanding at June 30, 2002, which are reported in the internal service funds, totaled \$30.597 million. Interest rates on these bonds ranged from 4.00% to 6.10%.

At June 30, 2002, there were no limited obligation bonds authorized but unissued.

The State issued limited obligation lease revenue bonds to finance the cost of capital facilities for use by certain State agencies. Pledges of lease rental payments that the agencies will pay from their governmental funds secure the bonds.

At June 30, 2002, future debt service requirements (expressed in thousands) for limited obligation bonds were:

Year Ending June 30	Governmental Activities (Internal Service Funds)	
	Principal	Interest
2003	\$ 3,575	\$ 1,448
2004	3,755	1,285
2005	3,930	1,111
2006	4,120	924
2007	4,320	725
2008-2012	7,195	1,969
2013-2017	3,835	336
Total debt service requirements.....	30,730	\$ 7,798
Unamortized discounts.....	(133)	
Total principal outstanding.....	\$ 30,597	

The internal service funds pay all debt service for the lease revenue bonds.

c. Revenue, Tobacco Authority, Infrastructure Bank, and Other Bonds, Notes, and Certificates of Participation

Revenue debt is associated with business-type activities. Revenue, Tobacco Settlement Revenue Management Authority (Tobacco Authority), Infrastructure Bank, and other bonds, notes, and certificates of participation are not backed by the full faith, credit, and taxing power of the State. Balances of these types of debt outstanding (expressed in thousands) at June 30, 2002, were:

	Bonds	Notes	Certificates of Participation
Primary Government:			
Governmental Activities:			
Infrastructure Bank bonds, 4.45% to 6.00%.....	\$ 1,193,046	\$ —	\$ —
Tobacco Authority bonds, 6.375% to 7.66%.....	902,920	—	—
Commerce Department note, 3.98%.....	—	196	—
Educational Television Network note, 3.92%.....	—	111	—
Natural Resources Department note, 4.59%.....	—	537	—
Judicial Department note, 3.98%.....	—	332	—
Jobs—Economic Development Authority notes, 8.75% to 9.00%.....	—	83	—
Budget and Control Board internal service fund notes 3.74% to 4.91%.....	—	3,139	—
Totals—governmental activities.....	2,095,966	4,398	—
Business-type Activities:			
Higher Education Fund bonds and notes, 3.00% to 8.50%.....	268,275	18,693	—
Housing Authority Fund bonds, 3.50% to 8.30%.....	525,791	—	—
Education Assistance Authority Fund bonds, 3.50% to 6.63%.....	505,498	—	—
Nonmajor Enterprise Funds:			
Nonmajor Enterprise Fund bonds and notes, 1.60 to 7.50%.....	117,818	41,219	—
Direct note obligations, 5.82% to 6.82%..	—	97,304	—
Certificates of participation, 5.60% to 7.50%.....	—	—	18,036
Totals—business-type activities.....	1,417,382	157,216	18,036
Totals—primary government.....	\$ 3,513,348	\$ 161,614	\$ 18,036
Major Discretely Presented Component Units:			
Public Service Authority bonds, 4.00% to 7.42%.....	\$ 1,989,287	\$ —	\$ —
State Ports Authority bonds and notes, 1.35% to 6.20%.....	\$ 148,972	\$ 316	\$ —
Connector 2000 Association, Inc. bonds, 5.25% to 6.30%.....	\$ 231,978	\$ —	\$ —
Lottery Commission notes, 8%.....	\$ —	\$ 10,589	\$ —

Certain revenue bonds require the individual business-type activities to provide sufficient revenue to pay debt service and to fund all necessary expenses of the activities.

University Medical Associates of the Medical University of South Carolina (UMA) is a blended component unit and nonmajor enterprise fund. During January 1995, UMA issued \$55.000 million in Direct Note Obligations, Select Auction Variable Rate Securities. During December 1997, UMA issued an additional \$40.000 million in Direct Note Obligations, Select Auction Variable Rate Securities. During December 1999, UMA issued \$39.400 million and \$45.600 million in Direct Note

Notes to the Financial Statements

Obligations, Select Auction Variable Rate Securities. UMA used a portion of the proceeds to partially refund the 1995 and 1997 issues. The variable rate of interest is set every thirty-five days. UMA entered into twenty-five year interest rate swap agreements for these obligations. Based on the swap agreements, UMA owes interest calculated at a fixed rate of 6.82% on \$10.000 million of the 1994 issue, 6.82% on the \$39.400 million issue and 5.82% on the \$45.600 million issue. If the actual floating variable interest rates exceed these rates, the counterparty pays the differential to UMA. If the actual floating variable rates are less than these rates, UMA pays the counterparty. Only the net difference in interest payments is actually exchanged with the counterparties. The \$10.000 million, \$39.400 million, and \$45.600 million in note principal are not exchanged; they are only the basis on which the interest payments are calculated. UMA continues to pay interest to the note holders at the variable rate provided by the notes. However, during the term of the swap agreements, UMA effectively pays fixed rates on the debt. The debt service requirements to maturity included in this note are based on current rates in effect at June 30, 2002. UMA will be exposed to variable rates if the counterparties to the swaps default or if the swaps are terminated. During May 2000, the interest rate swap agreement was modified to mitigate adverse income tax consequences to the counterparty should certain triggering events occur in the future, resulting in a payment to UMA of \$1.850 million for the life of the agreement. UMA has recorded this amount in deferred revenue and is amortizing it as a reduction of interest expense over the terms of the related obligations on the straight-line method.

The funds that receive the proceeds of revenue, Tobacco Authority, Infrastructure Bank, and other bonds, notes, and certificates of participation have pledged revenues for payment of debt service as follows:

Primary Government:

Governmental Activities:

- Commerce Department note: General Fund appropriations recorded in the General Fund
- Educational Television Network note: sale of educational television goods and services recorded in the Departmental General Operating Fund, a major governmental fund
- Natural Resources Department note: boat title and registration fees recorded in the Departmental General Operating Fund, a major governmental fund
- Judicial Department note: court fees recorded in the Departmental General Operating Fund, a major governmental fund
- Infrastructure Bank bonds: Infrastructure Bank revenues recorded in the Local Government Infrastructure Fund, a major governmental fund
- Tobacco Authority bonds: tobacco settlement revenues recorded in the nonmajor governmental funds
- Jobs-Economic Development Authority notes: loan repayments
- Budget and Control Board internal service fund notes: rental payments for vehicles and office space recorded in the internal service funds

Business-type Activities:

- Higher education bonds, notes, and certificates of participation: various specific higher education revenues
- State Housing Authority bonds: revenues of the Housing Authority Fund, a major enterprise fund
- Education Assistance Authority bonds: loan repayments and United States Commissioner of Education funds in the Education Assistance Authority Fund, a major enterprise fund

Major Discretely Presented Component Units:

- Public Service Authority bonds: Public Service Authority revenues
- State Ports Authority bonds: State Ports Authority revenues
- Connector 2000 Association, Inc., bonds: toll revenues
- Lottery Commission notes: lottery revenues

For its business-type activities, the State separately identifies amounts of pledged revenues available at June 30, 2002, in the statement of revenues, expenses, and changes in fund net assets for proprietary funds.

At June 30, 2002, future debt service requirements (expressed in thousands) for revenue, Tobacco Authority, Infrastructure Bank, and other bonds, notes, and certificates of participation of the primary government were as follows:

Year Ending June 30	Primary Government			
	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2003	\$ 22,306	\$ 120,938	\$ 68,083	\$ 75,429
2004	28,091	119,685	46,406	77,807
2005	27,378	118,251	51,756	75,793
2006	30,962	116,750	76,725	71,960
2007	31,986	115,117	35,525	69,737
2008 - 2012	288,980	533,745	428,691	334,835
2013 - 2017	334,200	438,998	255,102	205,040
2018 - 2022	350,740	345,092	302,279	146,003
2023 - 2027	483,775	228,741	154,620	79,830
2028 - 2032	501,630	65,209	141,905	34,384
2033 - 2037	—	—	45,840	3,641
Total debt service requirements.....	2,100,048	\$ 2,202,526	1,606,932	\$ 1,174,459
Unamortized premiums(discounts).....	316		(4,159)	
Deferred amount on refunding.....	—		(10,139)	
Total principal outstanding.....	\$ 2,100,364		\$ 1,592,634	

The fiscal year for the Public Service Authority ends December 31 while the fiscal year for the State Ports Authority ends June 30. Both entities are major discretely presented component units. At December 31, 2001, the carrying value of the Public Service Authority's debt was \$2.258 billion while the fair value was approximately \$2.620 billion. At June 30, 2002, the carrying value of the State Ports Authority debt was \$148.050 million while the fair value was approximately \$152.168 million. The fair values were estimated using current rates available to the entities for similar borrowing arrangements and on the market rate of comparable traded debt.

At June 30, 2002, future debt service requirements (expressed in thousands) for bonds and notes of the State's major discretely presented component units were as follows:

Notes to the Financial Statements

Year Ending December 31	Major Component Units			
	Public Service Authority		Connector 2000 Assoc.	
	Principal	Interest	Principal	Interest
2002	\$ 69,160	\$ 122,130	\$ —	\$ 3,532
2003	86,735	118,821	—	3,532
2004	75,755	113,865	—	3,532
2005	54,395	110,525	—	3,532
2006	55,170	107,243	—	3,532
2007 - 2011	332,395	492,780	28,300	17,269
2012 - 2016	467,435	371,628	55,400	15,885
2017 - 2021	620,700	229,611	87,700	14,071
2022 - 2026	291,830	78,049	122,000	11,739
2027 - 2031	183,675	29,711	161,600	8,643
2032 - 2036	20,740	531	192,000	4,598
2037 - 2041	—	—	99,100	446
Total debt service requirements.....	2,257,990	\$ 1,774,894	746,100	\$ 90,311
Unamortized discounts.....	(35,101)		(514,122)	
Deferred amount on refunding....	(233,602)		—	
Total principal outstanding.....	\$ 1,989,287		\$ 231,978	

Year Ending June 30	Major Component Units			
	State Ports Authority		Lottery Commission	
	Principal	Interest	Principal	Interest
2003	\$ 2,876	\$ 6,743	\$ 864	\$ 816
2004	2,900	6,632	6,275	603
2005	2,905	6,516	1,233	231
2006	3,025	6,392	1,335	129
2007	3,155	6,262	882	25
2008 - 2012	18,585	28,507	—	—
2013 - 2017	24,235	22,859	—	—
2018 - 2022	11,550	15,901	—	—
2023 - 2027	54,135	6,775	—	—
2028 - 2032	25,000	675	—	—
Total debt service requirements.....	148,366	\$ 107,262	10,589	\$ 1,804
Unamortized premium.....	922		—	
Total principal outstanding...	\$ 149,288		\$ 10,589	

Borrowing is essential to the continuation of programs associated with certain entities reported within the primary government's governmental activities. The primary government reported interest expense during the fiscal year ended June 30, 2002, in governmental functions for these entities as follows (expressed in thousands):

	Amount
General government.....	\$ 61,008
Transportation.....	72,978
Total allocated interest expense.....	\$ 133,986

The amount shown above in the general government function relates to bonds that a blended component unit issued.

d. Bond Anticipation Notes

At June 30, 2002, \$8.400 million in short-term general obligation bond anticipation notes and \$16.400 million in revenue bond anticipation notes were outstanding in the Higher Education Fund, a major enterprise fund. These notes are due on or before June 30, 2003.

e. Defeased Bonds

During May 2002, Lander University, included in the Higher Education major enterprise fund, issued \$2.000 million in Revenue Bonds with an interest rate of 4.70%. The University used bond proceeds and monies on deposit as reserves under

the terms of the refunded debt to refund \$85 thousand in Revenue Bonds with an interest rate of 8.00% and \$2.506 million in Revenue Notes with an interest rate of 5.50%. The current refunding decreases the University's total debt payments over the next ten years by \$1.060 million and results in an economic gain (difference between the present values of the old and new debt service payments) of \$130 thousand. Additionally, the new debt issue has no reserve requirements. There was no difference between the reacquisition price and the net carrying amount of the old debt.

During June 2002, the Medical University Hospital Authority, a nonmajor enterprise fund, issued \$102.835 million of Refunding Revenue Bonds to defease all prior outstanding Revenue Bonds totaling \$96.540 million. The net proceeds, as well as monies from the prior bond trustee accounts, were used to currently refund the Series 1990A and 1990B bonds, defease the Series 1993 bonds, and advance refund the Series 1999 bonds. The Authority deposited United States government securities into an irrevocable trust to provide for the debt service of the various bonds payable. The entire refunding transaction resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$5.025 million. The Authority is charging this difference, reported in the accompanying financial statements as a deduction from bonds payable, to operations through the year 2032 using the interest method. The Authority completed the refunding to obtain an increase in cash flow of approximately \$33.000 million from reduced debt service payments over the next four years and to release approximately \$11.000 million from reserve funds associated with the prior bonds. The refunding increases the Authority's total debt payments over the next thirty years by \$114.074 million and results in an economic loss of \$8.677 million.

During June 2002, the Education Assistance Authority (the EAA), a major enterprise fund, issued \$117.500 million in Guaranteed Student Loan Revenue and Refunding Bonds with an auction interest rate varying up to 12.00% to advance refund \$38.465 million in Revenue Bonds with an average interest rate of 5.50% and to provide financing for student loans. The EAA used the net proceeds of \$38.465 million (after payment of \$690 thousand for issuance costs and \$78.345 million for the purchase of new student loans) to purchase United States government securities. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$357 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2005 using the straight-line basis. The EAA completed the advance refunding to gain flexibilities that the 2002 bond resolution provided. The refunding increases the EAA's total debt payments over the next ten years by \$2.347 million and results in an economic gain of \$1.638 million.

During its fiscal year ended December 31, 2001, the Public Service Authority, a major discretely presented component unit, issued \$8.605 million in Refunding Revenue Bonds with an average interest rate of 3.68% to refund \$10.000 million in Revenue Bonds with an average interest rate of 6.813%. The

Notes to the Financial Statements

current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$286 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2006 using the effective-interest method. The bonds were refunded to reduce total debt service payments over the next five years by approximately \$668 thousand and to obtain an economic gain of approximately \$470 thousand.

In addition, during prior years the State defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the State placed the proceeds of the new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the State has not recorded the defeased bonds in the accompanying financial statements. At June 30, 2002, the following outstanding bonds of the primary government (expressed in thousands) were considered defeased:

	Higher Education Fund Bonds	Education Assistance Authority Bonds
Primary Government:		
<i>Business-type Activities</i>		
Higher Education Fund.....	\$ 116,331	\$ —
Education Assistance Authority Fund.....	—	38,465
Totals—primary government.....	\$ 116,331	\$ 38,465

In addition, at December 31, 2001, \$372.165 million of bonds associated with the Public Service Authority, a major discretely presented component unit, were considered defeased.

f. Arbitrage Rebate Payable

The Internal Revenue Code and arbitrage regulations issued by the Internal Revenue Service require rebate to the federal government of excess investment earnings on bond proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt bonds issued. The Education Assistance Authority Fund, a major enterprise fund, and certain universities reported in the Higher Education Fund, a major enterprise fund, have incurred arbitrage rebate liabilities in connection with student loan and university revenue bonds sold in previous years. Arbitrage rebates payable at June 30, 2002, have been recorded as other liabilities of \$29.480 million in the Education Assistance Authority Fund, and as other liabilities of \$189 thousand in the Higher Education Fund.

g. Conduit Debt

State law authorizes issuance of certain bonds for which the State assumes no responsibility for repayment. These bonds, therefore, do not appear as liabilities in the accompanying financial statements.

The Educational Facilities Authority, reported in the General Fund, issues bonds to assist nonprofit educational institutions that do not receive State appropriations in the acquisition, construction, and financing of facilities for educational programs. The bonds are payable solely from, and secured by, a lease agreement on the facilities between the Authority and the institution. When the bonds have been fully paid, the Authority conveys the title for the facility to the institution. At June 30, 2002, the outstanding balance of bonds issued was \$114.939 million.

The Jobs-Economic Development Authority, a nonmajor governmental fund, issues industrial revenue bonds to develop and benefit business enterprises. The bonds are payable solely by revenues of the business enterprise and generally are secured by an irrevocable letter of credit. At June 30, 2002, the outstanding balance of bonds issued after June 30, 1995, was \$1.491 billion. The original amount of bonds issued prior to that date is not available.

The Housing Authority Fund, a major enterprise fund, issues certain mortgage loan notes and housing revenue bonds for developers to construct moderate to low income housing projects. The bonds are payable solely from housing rental payments received by the developer and generally are secured by an irrevocable letter of credit or bond insurance. At June 30, 2002, the outstanding balance of bonds issued was \$260.506 million.

h. Resources Authority Debt

In prior years, the Resources Authority, reported in the General Fund, issued bonds and used the proceeds to purchase obligations of local governmental entities. The local governmental entities used the proceeds received from the Authority to fund water and sewer projects. Periodic principal and interest payments received from the local governmental entities are used by the Authority to retire its own debt. The debt issued by the Authority is not a debt of the State and is not recorded in the accompanying financial statements. The Authority's outstanding debt at June 30, 2002, was \$19.165 million. Effective October 1994, the General Assembly enacted legislation that prohibits the Authority from issuing bonds except to refund bonds previously issued.

Beginning in fiscal year 1993-1994, one local governmental entity has been unable to meet its financial obligation under the terms of a \$5.025 million revenue bond that the Authority purchased. In June 1990, when the local governmental entity issued its debt, it estimated that the related sewer project would be completed and operational by calendar year 1992. Revenue generated by the sewer system is pledged for debt retirement. The State paid a total of \$2.987 million in the 1993-1994 through 2000-2001 fiscal years, and \$420 thousand in the 2001-2002 fiscal year to the Authority to offset the loss of revenues from the delinquent local entity. The State has appropriated \$400 thousand in the 2002-2003 fiscal year for use, if needed, to offset the loss of revenues from the delinquent local entity.

Notes to the Financial Statements

i. Commercial Paper Notes

The Public Service Authority, a discretely presented component unit, has recorded a \$308.965 million liability for commercial paper notes at the end of its fiscal year ended December 31, 2001. The Authority issued the paper for valid corporate purposes with a term not to exceed 270 days. The Authority has a \$425.000 million revolving credit agreement to support the issuance of commercial paper. There were no borrowings under the agreement for the Authority's fiscal year ended December 31, 2001.

j. Subsequent Events

Since June 30, 2002, the State has issued bonds and notes as indicated in the table below. Of the total general obligation bonds that the primary government issued, \$28.000 million of the governmental activities bonds and \$5.250 million of the business-type activities bonds were to refund prior issues. Of the total revenue bonds that the primary government issued, \$15.990 million of the business-type activities bonds were to refund prior issues. Of the total revenue bonds issued by the Public Service Authority, a major discretely presented component unit, \$548.795 million were to refund prior issues.

Primary Government

<u>Description</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
General obligation bond anticipation notes.....	\$ —	\$ 8,400
Revenue bond anticipation notes.....	—	13,800
General obligation bonds.....	228,000	64,450
Revenue bonds.....	311,155	120,320
Totals.....	<u>\$ 539,155</u>	<u>206,970</u>

Component Units

<u>Description</u>	<u>Revenue Bonds</u>	<u>Commerical Paper Notes</u>
Public Service Authority.....	<u>\$ 921,710</u>	<u>\$ 85,522</u>

During January 2003, the State Infrastructure Bank, reported in the Local Government Infrastructure Fund, a major governmental fund, entered into a \$49.440 million interest-rate swap agreement on its Infrastructure Bank revenue bonds.

NOTE 14: CHANGES IN LIABILITIES

a. Long-Term Liabilities

Changes in major classes of long-term liabilities (expressed in thousands) for the fiscal year ended June 30, 2002, were:

Notes to the Financial Statements

	Balances at July 1, 2001	Increases	Decreases	Balances at June 30, 2002	Amounts Due Within One Year
Primary Government:					
Governmental Activities					
Policy claims.....	\$ 373,182	\$ 1,039,466	\$ (995,521)	\$ 417,127	\$ 367,447
Notes payable.....	\$ 7,157	\$ 551	\$ (3,310)	\$ 4,398	\$ 1,866
General obligation bonds payable.....	\$ 2,064,288	\$ 275,000	\$ (139,390)	\$ 2,199,898	\$ 170,312
Unamortized discounts and premiums.....	(9,762)	13,081	912	4,231	—
Total general obligation bonds payable....	\$ 2,054,526	\$ 288,081	\$ (138,478)	\$ 2,204,129	\$ 170,312
Tobacco Authority bonds payable.....	\$ 934,530	\$ —	\$ (31,610)	\$ 902,920	\$ —
Infrastructure Bank bonds payable.....	\$ 832,575	\$ 371,020	\$ (10,865)	\$ 1,192,730	\$ 20,440
Unamortized discounts and premiums.....	—	—	316	316	—
Total Infrastructure Bank bonds payable...	\$ 832,575	\$ 371,020	\$ (10,549)	\$ 1,193,046	\$ 20,440
Limited obligation bonds payable.....	\$ 34,155	\$ —	\$ (3,425)	\$ 30,730	\$ 3,575
Unamortized discounts and premiums.....	(152)	—	19	(133)	—
Total limited obligation bonds payable.....	\$ 34,003	\$ —	\$ (3,406)	\$ 30,597	\$ 3,575
Capital leases payable.....	\$ 10,042	\$ 1,247	\$ (3,104)	\$ 8,185	\$ 1,743
Compensated absences payable.....	\$ 190,942	\$ 109,159	\$ (107,877)	\$ 192,224	\$ 117,638
National Guard Pension System net obligation payable.....	\$ 5,333	\$ 1,192	\$ —	\$ 6,525	\$ —
Judgments and contingencies payable.....	\$ 19,012	\$ 10,071	\$ (14,567)	\$ 14,516	\$ 14,516

The National Guard Pension System net obligation payable and the judgments and contingencies payable are included in the *other liabilities* account.

The governmental fund that pays an employee's salary also is responsible for liquidating the employee's related compensated absence liability.

The General Fund is responsible for liquidating the National Guard Pension System liability. Historically, the State has paid most judgments related to governmental funds from its General Fund unless an identifiable amount was directly attributable to another specific fund.

Notes to the Financial Statements

	Balances at July 1, 2001	Increases	Decreases	Balances at June 30, 2002	Amounts Due Within One Year
Primary Government:					
Business-type Activities					
Policy claims.....	\$ 152,901	\$ 78,365	\$ (28,614)	\$ 202,652	\$ 30,000
Notes payable.....	\$ 177,796	\$ 47,880	\$ (67,363)	\$ 158,313	\$ 30,669
Deferred amount on refunding.....	(1,224)	—	127	(1,097)	—
Total notes payable.....	\$ 176,572	\$ 47,880	\$ (67,236)	\$ 157,216	\$ 30,669
General obligation bonds payable.....	\$ 96,310	\$ 45,250	\$ (7,325)	\$ 134,235	\$ 8,610
Revenue bonds payable.....	\$ 1,290,972	\$ 338,020	\$ (198,409)	\$ 1,430,583	\$ 23,700
Deferred amount on refunding.....	(4,428)	(5,639)	1,025	(9,042)	—
Unamortized discounts and premiums.....	(2,960)	(2,061)	862	(4,159)	—
Total revenue bonds payable.....	\$ 1,283,584	\$ 330,320	\$ (196,522)	\$ 1,417,382	\$ 23,700
Certificates of participation payable.....	\$ 19,010	\$ —	\$ (974)	\$ 18,036	\$ 1,280
Capital leases payable.....	\$ 47,782	\$ 11,990	\$ (13,139)	\$ 46,633	\$ 6,053
Compensated absences payable.....	\$ 94,077	\$ 61,972	\$ (58,030)	\$ 98,019	\$ 52,735
Major Component Units:					
Public Service Authority					
Revenue bonds payable.....	\$ 2,278,630	\$ 54,890	\$ (75,530)	\$ 2,257,990	\$ 69,160
Deferred amount on refunding.....	(247,695)	14,093	—	(233,602)	—
Unamortized discounts and premiums.....	(38,374)	3,273	—	(35,101)	—
Total revenue bonds payable.....	\$ 1,992,561	\$ 72,256	\$ (75,530)	\$ 1,989,287	\$ 69,160
Capital leases payable.....	\$ 29,485	\$ —	\$ (2,553)	\$ 26,932	\$ 2,654
Compensated absences payable.....	\$ 12,081	\$ 1,472	\$ (1,360)	\$ 12,193	\$ —
State Ports Authority					
Notes payable.....	\$ —	\$ 460	\$ (144)	\$ 316	\$ 201
Revenue bonds payable.....	\$ 150,595	\$ —	\$ (2,545)	\$ 148,050	\$ 2,675
Unamortized discounts and premiums.....	968	—	(46)	922	—
Total revenue bonds payable.....	\$ 151,563	\$ —	\$ (2,591)	\$ 148,972	\$ 2,675
Capital leases payable.....	\$ 441	\$ 45	\$ (369)	\$ 117	\$ 58
Compensated absences payable.....	\$ 1,830	\$ 2,332	\$ (2,111)	\$ 2,051	\$ 2,051
Connector 2000 Association, Inc.					
Revenue bonds payable.....	\$ 746,100	\$ —	\$ —	\$ 746,100	\$ —
Unamortized discounts and premiums.....	(523,747)	9,625	—	(514,122)	—
Total revenue bonds payable.....	\$ 222,353	\$ 9,625	\$ —	\$ 231,978	\$ —

Notes to the Financial Statements

	Balances at July 1, 2001	Increases	Decreases	Balances at June 30, 2002	Amounts Due Within One Year
Lottery Commission					
Notes payable.....	\$ —	\$ 16,323	\$ (5,734)	\$ 10,589	\$ 864
Compensated absences payable.....	\$ —	\$ 342	\$ (8)	\$ 334	\$ —

b. Short-Term Debt

The State's Higher Education Fund sometimes issues Bond Anticipation Notes (BANS) in advance of issuing bonds. Short-term debt activity

(expressed in thousands) for the fiscal year ended June 30, 2002, which was limited to BANS in the Higher Education Fund, a major enterprise fund, and commercial paper notes in the Public Service Authority, a major discretely presented component unit, was as follows:

	Balances at July 1, 2001	Increases	Decreases	Balances at June 30, 2002
Primary Government:				
Business-type Activities				
General obligation bond anticipation notes payable.....	\$ —	\$ 8,400	\$ —	\$ 8,400
Revenue bond anticipation notes payable.....	\$ —	\$ 16,400	\$ —	\$ 16,400
Major Component Unit:				
Public Service Authority				
Commercial paper notes.....	\$ 331,578	\$ 308,965	\$ (331,578)	\$ 308,965

NOTE 15: RESERVATIONS AND DESIGNATIONS OF FUND BALANCES IN GOVERNMENTAL FUNDS

Reserved components of fund balances represent amounts in governmental funds that are legally

segregated or that the State cannot appropriate. Designated portions of unreserved fund balances reflect tentative plans for future use of available financial resources.

The unreserved component of fund balance equals the total fund balance less reserved amounts.

At June 30, 2002, the following amounts of fund balance in governmental funds (expressed in thousands) were reserved or designated:

Notes to the Financial Statements

	General	Departmental General Operating	Local Govern- ment Infra- structure	Department of Transporta- tion Special Revenue	Nonmajor Govern- mental Funds	Total Govern- mental Funds
Fund balances reserved for:						
Interfund receivables.....	\$ 5,868	\$ 400	\$ 190,903	\$ 2,050	\$ 43	\$ 199,264
Appropriations to be carried forward	50,445	—	—	—	—	50,445
Endowment and similar funds	—	—	—	—	1,735	1,735
Long-term loans and notes receivable	10	337	280,978	5,967	12,079	299,371
Debt requirements.....	—	—	899,395	3,410	117,937	1,020,742
School building aid	11,288	—	—	—	5,886	17,174
Total reserved fund balances.....	\$ 67,611	\$ 737	\$ 1,371,276	\$ 11,427	\$ 137,680	\$ 1,588,731

	Department of Transporta- tion Special Revenue	Nonmajor Govern- mental Funds	Total Govern- mental Funds
Unreserved fund balances designated for:			
Capital expenditures	\$ 179,350	\$ 112,525	\$ 291,875
Scholarships.....	—	22,013	22,013
Total unreserved, designated fund balances.....	\$ 179,350	\$ 134,538	\$ 313,888

The following subsections contain further descriptive information regarding the above reserved and designated components of fund balance.

a. Reserved

Reserved for Interfund Receivables and Reserved for Long-Term Loans and Notes Receivable

Long-term loans and notes receivable and interfund receivables are assets that do not represent expendable available resources. Governmental funds, therefore, reserve a corresponding portion of fund balance.

Reserved for Appropriations to be Carried Forward

The General Fund does not use encumbrance accounting. It uses the reserve for appropriations to be carried forward, however, if the General Assembly has authorized the carry-forward of General Fund appropriations to the next fiscal year.

Reserved for Endowment and Similar Funds

This reserve recognizes restrictions on donated resources.

Reserved for Debt Requirements

When financing agreements or bond indentures require a reservation, the State records an amount as reserved for debt requirements.

Reserved for School Building Aid

If the State promises to pay a school district to build school buildings or to retire debt on such buildings, it records an amount as reserved for school building aid. The State has recorded such amounts, which are not available for appropriation, in its General Fund and its nonmajor governmental funds.

b. Designated

Designated for Capital Expenditures

The amount designated for capital expenditures in the Department of Transportation Special Revenue Fund is for replacement of structurally deficient bridges and construction of new roads. State Highway Bonds will finance these projects. The designated for capital expenditures balance in the nonmajor governmental funds represents the balance of the State's Capital Projects Fund.

Designated for Scholarships

The amount designated for scholarships in the nonmajor governmental funds is for the Teacher Loan Program. This program makes loans to students. The State cancels 20.0% to 33.0% of the loan for each year that the borrower teaches in a critical-need area. Borrowers who do not teach in such an area, however, must repay their loans.

Notes to the Financial Statements

NOTE 16: INTERFUND BALANCES

The following table summarizes interfund balances at June 30, 2002 (expressed in thousands):

Description	Due From/To	Interfund Receivables Payables
Receivable fund: General		
Payable funds:		
Departmental General Operating.....	\$ 33,478	\$ 5,964
Local Government Infrastructure.....	1	—
Higher Education.....	—	1,026
Unemployment Compensation.....	14,048	—
Internal service.....	312	6,408
Fiduciary.....	53	—
Other.....	152	11,538
Receivable fund: Departmental General Operating		
Payable funds:		
General.....	38,943	—
Department of Transportation Special Revenue..	25	—
State Tobacco Settlement.....	44	—
Higher Education.....	—	400
Internal service.....	59	—
Fiduciary.....	3	—
Other.....	903	3,150
Receivable fund: Local Government Infrastructure		
Payable funds:		
General.....	6,731	—
Department of Transportation Special Revenue..	2,677	190,903
Receivable fund: Department of Transportation		
Special Revenue Fund		
Payable funds:		
General.....	1,202	2,050
Local Government Infrastructure.....	1,314	—
Receivable fund: Higher Education		
Payable funds:		
General.....	6,077	—
Departmental General Operating.....	7,476	—
Department of Transportation Special Revenue..	521	—
Internal service.....	6	—
Other.....	11,875	—
Receivable fund: Unemployment Compensation		
Payable fund: General.....	9	—
Receivable fund: Housing Authority		
Payable funds: Internal service.....	2	—
Receivable funds: Internal Service		
Payable funds:		
General.....	5,676	—
Departmental General Operating.....	5,471	661
Local Government Infrastructure.....	—	3,500
Department of Transportation Special Revenue..	181	—
State Tobacco Settlement.....	72	—
Higher Education.....	807	—
Internal service.....	266	1,170
Fiduciary.....	21,188	—
Other.....	781	16,724
Receivable funds: Fiduciary		
Payable funds:		
General.....	31,931	—
Departmental General Operating.....	12,842	—
Local Government Infrastructure.....	9	—
Department of Transportation Special Revenue..	5,482	—
State Tobacco Settlement.....	5	—
Higher Education.....	6,772	—
Fiduciary.....	11,619	—
Internal service.....	1,208	—
Other.....	867	—

Description	Due From/To	Interfund Receivables Payables
Receivable funds: Other		
Payable funds:		
General.....	\$ 11,321	\$ —
Departmental General Operating.....	1,199	43
Local Government Infrastructure.....	412	—
Department of Transportation Special Revenue.....	2	—
Higher Education.....	537	27,679
Education Assistance Authority.....	47	—
Internal service.....	1	—
Other.....	2,689	3,219
Totals.....	\$ 247,296	\$ 274,435

NOTE 17: REVENUES AND EXPENDITURES OR EXPENSES

a. Proprietary Fund Revenues—Allowances and Discounts

In the financial statements, the State presents its revenues net of allowances for uncollectible accounts receivable and contractual adjustments. Note 6 reports these allowances.

Scholarship allowances in the Higher Education Fund represent the sum of differences between stated charges for goods and services provided to students and amounts billed to students and/or third parties making payments on behalf of students. For the fiscal year ended June 30, 2002, Scholarship allowances reduced the revenues of the Higher Education Fund by the following amounts (expressed in thousands):

	Scholarship Allowances
Charges for services.....	\$ 138,695
Operating revenues pledged for revenue bonds.....	11,727
Other operating revenues.....	12,527
Total	\$ 162,949

b. Extraordinary and Special Items

Extraordinary items generally are transactions or other events that are both unusual in nature and infrequent in occurrence. However, generally accepted accounting principles require that the State report any losses on the early extinguishment of debt in its proprietary funds as extraordinary even if they do not meet the preceding description. The State reports significant transactions or other events within the control of management that are *either* unusual in nature *or* infrequent in occurrence as *special items*. The State recorded the extraordinary and special items described below in both its government-wide and fund financial statements unless indicated otherwise for the fiscal year ended June 30, 2002.

Notes to the Financial Statements

Extraordinary Losses on Early Extinguishments of Debt

The \$289 thousand of extraordinary loss on early extinguishment of debt in the Housing Authority Fund, a major enterprise fund, resulted from bond redemptions. The Authority used existing cash reserves to extinguish the debt.

The \$575 thousand of extraordinary loss on early extinguishment of debt in the nonmajor enterprise funds resulted when the Pharmaceutical Education and Development Foundation of the Medical University of South Carolina terminated its capital lease on a building. Because of the lease termination, the nonmajor enterprise funds also reduced the net carrying value of buildings by \$7.590 million and capital leases payable by \$7.015 million.

Other Extraordinary Items

The \$1.266 million extraordinary loss in the Higher Education Fund, a major enterprise fund, resulted from the settlement of a lawsuit that arose out of a contractual dispute between the South Carolina State University and a construction company. The \$1.266 million is included in accounts payable at June 30, 2002.

The \$2.150 million extraordinary loss in the nonmajor enterprise funds resulted from a judgment requiring the University Medical Associates of the Medical University of South Carolina (UMA) to pay that amount of legal fees and costs in connection with a structured legal settlement between UMA and the federal government.

Special Item

The \$2.571 million special item (i.e., a loss) in the nonmajor enterprise funds resulted from the University Medical Associates for the Medical University of South Carolina's (UMA's) sale of one of its primary care practices. This sale was part of a larger plan of UMA's management to dispose of certain primary care practices in an effort to make its primary care network financially self-sustaining. The special item included the write-off of intangible assets, payments to physicians relative to the termination of their employment contracts, and payments of related legal expenses.

Discretely Presented Component Unit— Connector 2000 Association, Inc.

Before the opening of the Southern Connector and commencement of toll road operations, the Connector 2000 Association, Inc., a major discretely presented component unit, incurred \$764 thousand in expenses for advertising and for the toll road's grand opening celebration. The State recorded these nonrecurring expenses as a special item only in its government-wide financial statements since it does not present fund financial statements for discretely presented component units.

NOTE 18: DONOR-RESTRICTED ENDOWMENTS AND PLEDGES

a. Donor-Restricted Endowments

The State's permanent funds (nonmajor governmental funds) and the Higher Education Fund, a major enterprise fund, maintain donor-restricted endowments. Net appreciation consists of realized and unrealized increases in the fair value of an endowment's assets over the historic dollar value of the assets.

At June 30, 2002, \$5.009 million of the amount reported as *restricted net assets, expendable for education*, represented net appreciation on investments of donor-restricted endowments available for authorization for expenditure by governing boards of the higher education institutions. In addition, \$10 thousand of the amount reported as *restricted net assets, expendable for other*, represented net appreciation on investments of donor-restricted endowments of permanent funds.

The South Carolina Uniform Management of Institutional Funds Act (Title 34, Chapter 6, of the South Carolina Code of Laws, which is referred to below as "the Act") permits an agency's/institution's governing board to authorize for expenditure all of an endowment's net appreciation, unless the applicable gift instrument indicates the donor's intention that net appreciation not be expended. The Act requires, however, that the authorized expenditure be limited to the uses and purposes for which the endowment was established and that the institution's governing board exercise ordinary business care and prudence in authorizing the expenditure of net appreciation.

Specific policies for authorizing and spending endowment investment income vary among the agencies and institutions that hold endowments. Generally, the governing boards establish these policies. Among those agencies/institutions that recorded investment income in donor-restricted endowments during the fiscal year ended June 30, 2002, the predominant policy was to authorize the spending of 4.75% to 5.00% of the fair value of total endowment assets annually.

b. Pledges

The State's Higher Education Fund, a major enterprise fund, and related blended component units reported as nonmajor enterprise funds, recognize receivables and revenues for pledges or promises of cash or other assets from nongovernmental entities when all eligibility requirements are met, provided that the promise is verifiable and the resources are measurable and probable of collection. The

Notes to the Financial Statements

financial statements report these amounts as accounts receivable. However, various benefactors have established split interest agreements with The Citadel Trust, Inc., a nonmajor enterprise fund. Among these agreements are a charitable remainder uni-trust and a charitable remainder trust. The Citadel, a higher education institution reported in the Higher Education Fund, will receive a specified portion of the assets remaining under these agreements at the benefactors' deaths. The parties who manage the assets associated with these agreements are not included within the State of South Carolina's financial reporting entity. The State's financial statements do not report these trust assets because the ultimate amounts that the State will receive were not deemed to be measurable at June 30, 2002.

NOTE 19: SEGMENT INFORMATION

The Housing Authority provides low-cost housing to the State's citizens by issuing bonds/notes and by administering federal contracts and grants. The State issues various separate revenue bonds to finance activities within the Single Family Finance program of its Housing Authority Fund, a major enterprise fund. Covenants of the following revenue bonds within the Single Family Finance program require separate accounting and financial reporting: (a) Single Family, (b) Home Ownership, and (c) Mortgage Revenue. Investors in these bonds rely solely on the revenue generated by the individual activities for repayment. Accordingly, condensed financial statements (expressed in thousands) for these segments for the fiscal year ended June 30, 2002, are presented below:

CONDENSED STATEMENT OF NET ASSETS

	Single Family	Home Ownership	Mortgage Revenue
Assets			
Current restricted assets.....	\$ 7,012	\$ 942	\$ 17,338
Noncurrent restricted assets.....	221,669	42,318	406,614
Other assets.....	1,005	20	3,144
Total assets.....	229,686	43,280	427,096
Liabilities			
Current liabilities payable from restricted assets.....	7,012	942	17,338
Noncurrent liabilities.....	108,246	12,002	382,292
Total liabilities.....	115,258	12,944	399,630
Net assets			
Restricted and expendable for:			
Debt service.....	111,219	29,169	19,706
Bond reserves.....	3,209	1,167	7,760
Total net assets.....	\$ 114,428	\$ 30,336	\$ 27,466

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Single Family	Home Ownership	Mortgage Revenue
Operating revenues:			
Pledged revenues:			
Interest on loans.....	\$ 10,300	\$ 2,439	\$ 22,155
Income on deposit.....	1,259	330	4,516
Other revenues:			
Bond premium amortization.....	38	—	—
Total operating revenues.....	11,597	2,769	26,671
Operating expenses:			
Bond issuance cost amortization.....	41	2	203
Other operating expenses.....	6,019	1,076	24,255
Total operating expenses.....	6,060	1,078	24,458
Operating income.....	5,537	1,691	2,213
Loss on early extinguishment of debt (extraordinary item).....	—	(11)	(278)
Transfers:			
Transfers in.....	—	—	845
Transfers out.....	(2,914)	(835)	—
Increase in net assets.....	2,623	845	2,780
Beginning net assets.....	111,805	29,491	24,686
Ending net assets.....	\$ 114,428	\$ 30,336	\$ 27,466

CONDENSED STATEMENT OF CASH FLOWS

	Single Family	Home Ownership	Mortgage Revenue
Net cash provided (used) by:			
Operating activities.....	\$ 6,635	\$ 8,434	\$ (6,977)
Noncapital financing activities.....	(8,504)	(7,313)	3,541
Investing activities.....	1,367	424	22,524
Net increase (decrease).....	(502)	1,545	19,088
Beginning cash and cash equivalents.....	69,144	12,629	62,720
Ending cash and cash equivalents.....	\$ 68,642	\$ 14,174	\$ 81,808

Because the above separately identifiable activities provide essentially similar services to the Authority's customers, they are not considered to be different activities for financial reporting purposes. Accordingly, all of the Housing Authority's activities are reported as a single fund and as a single business-type activity in the accompanying financial statements.

NOTE 20: JOINT VENTURE AND JOINT OPERATION

a. Joint Venture

In May 1997, the Public Service Authority (the Authority), a major discretely presented component

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unit, along with two unrelated publicly owned electric utilities formed a wholesale power marketing joint venture called The Energy Authority (TEA). Subsequently, three additional unrelated entities joined TEA. The Authority now has a twenty-one percent ownership interest, which it records as an equity investment. TEA provides services to its member organizations, as well as to certain non-member organizations, and allocates transaction savings and operating expenses to its member organizations pursuant to a Settlement Agreement.

During its fiscal year ended December 31, 2001, the Authority received distributions of \$39.789 million from TEA and recognized \$39.977 million in reductions to power costs, partially offset by \$1.439 million in equity losses.

The Authority has provided certain guarantees and has pledged certain collateral to support TEA's transactions. The Authority's Board of Directors has approved the use of up to \$44.300 million to support TEA's activities. During its fiscal year ended December 31, 2001, the Authority advanced \$10.245 million to TEA in support of its future gas marketing activities and recorded \$3.217 million in realized losses from natural gas hedging transactions. The Authority deferred \$3.119 million in unrealized losses at December 31, 2001, as regulatory assets; it will recognize and recover these unrealized losses through its rates as the hedged power delivery occurs and it records fuel expense.

Interested parties may obtain a copy of TEA's financial statements by writing to:

The Energy Authority
76 South Laura Street, Suite 1500
Jacksonville, Florida 32202

b. Joint Operation

The Summer Nuclear Station is a joint operation owned by the Public Service Authority (the Authority), a major discretely presented component unit and regulated electric utility, and the South Carolina Electric and Gas Company (SCE&G), a non-governmental electric utility. The Authority owns an undivided one-third interest in the Station while SCE&G owns an undivided two-thirds interest. SCE&G is solely responsible for the Station's design, construction, management, budgeting, operation, maintenance, and decommissioning; and the Authority is obligated to pay its ownership share of all costs relating thereto. The Authority receives one-third of the net electricity generated.

In accordance with regulatory accounting practices, the Authority reported capital assets of \$491.000 million and expenses of \$47.683 million, which represent its interest in this joint operation. The Summer Nuclear Station is not a separate legal entity and does not prepare separate financial statements.

Nuclear fuel costs are being amortized based on energy expended, which includes a component for estimated disposal costs of spent nuclear fuel. This amortization is included in fuel expense and is recovered through the Authority's rates.

SCE&G has on-site spent fuel storage capability until at least 2007 and expects to be able to expand its storage capacity to accommodate the spent fuel output for the life of the plant through rod consolidation, dry cask storage, or other technology as it becomes available.

The Nuclear Regulatory Commission (NRC) requires a licensee of a nuclear reactor to provide minimum financial assurance of its ability to decommission its nuclear facilities. A site-specific decommissioning study completed in 2000 estimated the Authority's share of decommissioning costs for the Summer Nuclear Station as \$143.419 million in 1999 dollars. The Authority accrues its share of the estimated decommissioning costs over the remaining life of the facility. These costs are being recovered through the Authority's rates.

To comply with the NRC regulations, the Authority established an external trust fund and has been making deposits into this fund since September 1990. In addition, the Authority established an internal decommissioning account. The Authority makes deposits into this fund in the amount necessary to fund the difference between the 2000 site-specific study and the NRC's imposed minimum requirement. Based on current decommissioning cost estimates developed by SCE&G, these funds, which totaled \$84.070 million (adjusted to market) at December 31, 2001, along with future deposits into both the external and internal decommissioning accounts and investment earnings, are expected to provide sufficient funds for the Authority's share of the estimated decommissioning costs.

The Energy Policy Act of 1992 gave the Department of Energy (DOE) the authority to assess utilities for the decommissioning of its facilities used for the enrichment of uranium included in nuclear fuel costs. In order to decommission these facilities, the DOE estimates that it would need to charge utilities \$150.000 million, indexed for inflation, annually for 15 years based on enrichment services used by utilities in past periods. Based on an estimate provided by SCE&G, the Authority's one-third share of this liability at December 31, 2001, totaled \$1.197 million. The Authority has deferred this amount and will recover it through rates as paid. These costs are included in deferred charges, and deferred revenues and deferred credits on the face of the accompanying financial statements.

The Price-Anderson Indemnification Act has established the maximum liability for public claims arising from any nuclear incident as \$9.500 billion. Nuclear liability insurance of approximately \$200.000 million per site would cover this amount, with potential retrospective assessments of up to \$88.100 million per licensee for each nuclear incident occurring at any reactor in the United States (payable at a rate not to exceed \$10.000 million per incident per year). Based on its one-third interest in the Summer Nuclear Station, the Authority would be responsible for a maximum assessment of \$29.400 million, not to exceed approximately \$3.300 million per incident per year. This amount is subject to further increases to reflect (i) inflation, (ii) increases in the licensing for operation of additional nuclear reactors, and (iii) any increase in the amount of commercial liability insurance that the Authority must maintain to comply with the NRC.

Notes to the Financial Statements

SCE&G and the Authority maintain, with Nuclear Electric Insurance Limited (NEIL), \$500.000 million primary and \$1.500 billion excess property and decontamination insurance to cover the costs of facility cleanup in the event of an accident. In addition to the premiums paid on the excess policy, SCE&G and the Authority also could be assessed a retroactive premium, not to exceed five times the annual premium, in the event of property damage to any nuclear generating facility covered by NEIL. Based on the current annual premium and the Authority's one-third interest, the Authority's maximum retroactive premium would be \$2.800 million for the primary policy and \$3.000 million for the excess policy.

SCE&G and the Authority also maintain accidental outage insurance to cover replacement power costs (within policy limits) associated with an insured property loss. This policy carries a potential retrospective assessment of \$1.400 million.

The Authority does not purchase insurance for any retrospective premium assessments, claims in excess of stated coverage, or cost increases due to the purchase of replacement power.

NOTE 21: RELATED PARTY TRANSACTIONS

These financial statements exclude certain related foundations and other organizations, including those discussed below. (See also Note 1a, Scope of Reporting Entity.)

During the fiscal year ended June 30, 2002, the Educational Television Endowment of South Carolina, Inc., disbursed \$8.907 million on behalf of the Departmental General Operating Fund, a major governmental fund, for programs, development, advertising, and other costs.

The following organizations are related to the Higher Education Fund, a major enterprise fund: the University of South Carolina Development Foundation; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the South Carolina Research Institute; the Greater University of South Carolina Alumni Association; the Carolina Piedmont Foundation, Inc.; the Lancaster County Educational Foundation, Inc.; the Clemson University Foundation; the Clemson University Research Foundation; the Clemson Advancement Foundation for Design and Building; the Clemson University Continuing Education and Conference Complex Corporation; the Health Sciences Foundation of the Medical University of South Carolina; the Medical University of South Carolina Foundation for Research Development; the Coastal Educational Foundation, Inc.; the Coastal Carolina Booster Club, Inc.; the Horry County Higher Education Commission; Georgetown County Advisory Board for Coastal Carolina University; the College of Charleston Foundation; the Winthrop University Foundation; the Francis Marion University Foundation; the Citadel Foundation; the Citadel Alumni Association; the Citadel's Brigadier Foundation; South Carolina State Educational Foundation; the Lander Foundation; the Lander Alumni Association; Aiken Technical College

Foundation, Inc.; Technical College of the Lowcountry Foundation, Inc.; Horry-Georgetown Technical College Foundation; Greenville Tech Foundation, Inc.; Midlands Technical College Foundation; Orangeburg-Calhoun Technical College Foundation; Piedmont Technical College Foundation; Spartanburg Technical College Education Foundation, Inc.; Tri-County Technical College Foundation; Trident Technical College Foundation; and York Technical College Foundation, Inc. During the fiscal year ended June 30, 2002, the State entered into various transactions with these organizations. Approximate amounts within the State's Higher Education Fund that represented transactions with these related parties include: receivable from foundations—\$71.670 million; donations of cash and other assets from foundations—\$73.157 million; expenditures paid to foundations—\$7.351 million; and reimbursements to the State for expenses/expenditures the State incurred on behalf of foundations—\$4.856 million.

The Education Assistance Authority Fund, a major enterprise fund, has designated the South Carolina Student Loan Corporation (SLC) as the entity to administer the enterprise fund's student loan program. During the fiscal year ended June 30, 2002, the enterprise fund entered into various transactions with SLC. Approximate amounts within the enterprise fund that represent these transactions include: accounts receivable from SLC—\$2.543 million; notes receivable from SLC—\$307.842 million; program revenue from SLC—\$28.727 million; accounts payable to SLC—\$18.915 million; and reimbursements to SLC for administrative costs—\$6.836 million.

At June 30, 2002, the nonmajor enterprise funds owed \$5.363 million to the Health Sciences Foundation of the Medical University of South Carolina on an interest-free loan.

NOTE 22: MAJOR DISCRETELY PRESENTED COMPONENT UNITS

a. Significant Transactions of Major Component Units with the Primary Government

The Public Service Authority makes payments to the General Fund in lieu of taxes each year based on requirements under bond indentures. These payments totaled \$9.216 million during the Authority's fiscal year ended December 31, 2001.

During the fiscal year ended June 30, 2002, the State Ports Authority resolved to contribute a total of \$45.000 million over twenty-six years to the Local Government Infrastructure Fund, a major governmental fund, for the Cooper River Bridge project in Charleston. The Authority made the first payment of \$5.000 million during the fiscal year ended June 30, 2002.

The South Carolina Lottery for Education Act requires the Lottery Commission to transfer all

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proceeds from lottery ticket sales and other revenues net of expenses to the Education Lottery Fund, a nonmajor governmental fund. The Commission transferred \$70.250 million during the fiscal year ended June 30, 2002; the Commission owed an additional \$10.895 million to the Fund at June 30, 2002.

b. Concentrations of Credit Risk

The Public Service Authority and State Ports Authority, major discretely presented component units, have chosen to present their statements in accordance with applicable pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989. Accordingly, these component units present disclosures regarding concentrations of credit risk.

Public Service Authority

Concentrations of credit risk with respect to the Public Service Authority's receivables are limited due to its large number of customers and their dispersion across different industries. The Authority maintains an allowance for uncollectible accounts based on the expected collectibility of all accounts receivable. The Authority's sales to its two major customers for its fiscal year ended December 31, 2001, were as follows (expressed in thousands):

Customer	Revenue	% of Total Operating Revenue
Central Electric Power Cooperative, Inc.....	\$ 473,000	48.61%
Alurax of South Carolina, Inc.....	99,000	10.17%

No other customer accounted for more than 10% of the Authority's sales.

State Ports Authority

During the fiscal year ended June 30, 2002, two customers accounted for approximately 16% and 12% of the State Ports Authority's revenues. The Authority performs ongoing credit evaluations of its customers and generally operates under international laws, which may provide for a maritime lien on vessels in the event of default on credit terms. The Authority maintains reserves for potential credit losses.

NOTE 23: CONTINGENCIES AND COMMITMENTS

a. Litigation

Primary Government

Among the unresolved lawsuits in which the State was involved at June 30, 2002, are several that challenge the legality of certain taxes. The challenged revenues include the sales tax on gross business proceeds and on certain machinery used in manufacturing. In the event of unfavorable outcomes for these cases, the State does not expect the ultimate liability to exceed \$55.000 million. State losses in these cases could reduce future revenues. These estimates do not include the impact on future revenues.

The South Carolina Retirement Systems are involved in two lawsuits relating to the calculation of retirement benefits. On September 21, 2001, two employees and an employer filed a putative class action lawsuit against the South Carolina Retirement Systems and the South Carolina Budget and Control Board. The suit alleged that the Retirement Systems wrongfully denied benefits to members of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) due to misinterpretation of the definition of average final compensation. The plaintiffs further allege that SCRS and PORS collected over \$2.000 billion and \$500.000 million, respectively, in excess contributions. Plaintiffs seek a declaratory judgment that a benefit was wrongfully denied and/or that excess contributions were collected and request that contributions be reduced in the future. Plaintiffs seek a refund of over \$2.000 billion to members and employers. Finally, plaintiffs seek to impose a constructive trust on monies overpaid by plaintiffs and/or wrongfully withheld by the Systems. In a separate suit, four PORS retirees seek to vacate an opinion that the South Carolina Supreme Court issued on May 22, 2001, in the State's favor in a case challenging the Retirement Systems' treatment of unused annual leave in the calculation of retirement payments. The plaintiffs also seek punitive damages. Should the plaintiffs ultimately prevail in having the Supreme Court's decision reversed, the liability to the Retirement Systems could be approximately \$2.000 billion.

Two lawsuits relating to the taxation of retirement benefits are pending against the State. One class action case challenges the taxation of federal retirees' income, and the other case challenges the State's law imposing income taxes upon benefits paid to retired government employees by the South Carolina Retirement Systems. In both

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actions, the State Circuit Court granted the State's motion to dismiss. In the case brought by the Federal retirees, the State Supreme Court reversed the dismissal of the suit by the Circuit Court but did not comment on the merits of the case. The State Circuit Court then denied the relief sought by the plaintiff class and granted judgment in favor of the State. The plaintiffs now are appealing to the State Supreme Court. The State Supreme Court dismissed the other case and required the plaintiff to pursue the claim administratively. The claim is now pending before the Administrative Law Division. In the event of an unfavorable outcome in both cases, the State's liability for retroactive relief could exceed \$589.500 million. The estimated unfavorable impact on future year revenues could be an additional \$52.500 million to \$62.500 million per year.

The State is involved in other legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Such litigation includes cases involving claims asserted against the State arising from alleged torts, breach of contract, and possible violations of State laws. In the event of unfavorable outcomes in all of the above matters, the State's estimated liability would be approximately \$10.123 million.

While the State is uncertain as to the ultimate outcome of any of the above-described lawsuits, it is vigorously defending its position in each case.

The State is involved in a number of cases in which the amounts of potential losses, if any, are not presently determinable. These cases include one contending that the funding of public education in South Carolina is inequitable and inadequate. The State moved to dismiss the case, and the Circuit Court granted that motion. The plaintiffs appealed, and the State Supreme Court affirmed part of the Circuit Court's order but remanded the case to the Circuit Court for further proceedings as to the issue of alleged inadequate educational opportunity. Discovery is proceeding, and the plaintiffs have amended their complaint to allege a damage claim. A motion to dismiss is pending as to the damage claim, and trial has been scheduled for May 2003. In another case involving an Indian tribe and a school district, the State is a party added as an intervener or defendant. The Circuit Court has, by letter, requested the school district's attorneys to prepare an order granting judgment for the District and noting that no Constitutional issues are present in this case. The conclusions about the Constitutional issue and the applicable instructions from the Court are favorable to the State's legal position. The Order has not yet been issued, and whether it will be appealed is not known. Unfavorable rulings in this case potentially could have a considerable financial impact on the State.

Due to the uncertainty involving the ultimate outcome of the previously discussed unresolved lawsuits, no provision for potential liability has been made for them in the accompanying financial statements.

The State is also involved in a direct action against the United States to enjoin the collection of penalties for the State's purported failure to implement a statewide Child Support System. The State lost in the United States District Court on summary judgment, and an appeal is pending at the Court of Appeals for the Fourth Circuit. In the event

of an unfavorable outcome in this case, the United States would continue to recover the penalties by withholding portions of federal disbursements over time. At June 30, 2002, the State had recorded a \$6.075 million liability in its governmental activities in the government-wide statement of activities. This amount represents penalties imposed for periods before June 30, 2002, that the federal government has not yet withheld from its disbursements to the State.

Generally, liabilities recorded by the State's Insurance Reserve Fund (see Note 11a), an internal service fund, are sufficient to cover claims arising from alleged torts, up to the liability limits established by the South Carolina Tort Claims Act. Currently, no tort claims are pending that are expected to result in any significant liability in excess of the provision for policy claims recorded by the Insurance Reserve Fund.

Major Discretely Presented Component Unit— Public Service Authority

A group of customers of the Public Service Authority, a major discretely presented component unit and electric utility company, has filed suit against the Authority seeking monetary damages arising out of a change in the Authority's "Good Cents" rate. The Authority denied the material allegations and opposed the request for class certification, but the court granted a class certification to the plaintiffs. Discovery is ongoing. The Authority's management and counsel believe it is reasonably possible, but not probable, that the ultimate liabilities arising from this claim may total \$20.000 million to \$30.000 million if the plaintiffs are successful on all claims.

The Authority is a party to, or has an indirect interest in, several lawsuits in which the amounts of potential losses, if any, are not presently determinable. The following paragraphs discuss the most significant of these cases.

Landowners located along the Santee River contend that the Authority is liable for damage to their real estate because of flooding that has occurred since the U. S. Army Corps of Engineers completed its Cooper River Rediversion Project in 1985. A 1997 trial returned a jury verdict against the Authority on certain causes of action. The Authority appealed the decision, and the case was remanded to the District Court.

The Authority offered land for sale to a number of its lessees. The lessees instituted an action in alleging that the property appraisals were improper and the price that the Authority offered was unfair. The Court granted summary judgment in favor of the Authority. The plaintiffs have appealed.

The Authority provides electric cooperatives with power and services under various agreements. In October 2001, one such cooperative notified the Authority that it would be unable to pay for services provided. The Authority is negotiating payment terms with this cooperative for the full \$5.400 million it owes the Authority for services provided before October 2001, plus interest. Since October 2001, a second cooperative, which receives much of its power from the Authority, has continued to provide the debtor cooperative with power and to pay the Authority for the debtor cooperative's power usage under a coordination agreement. However,

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the second cooperative now disputes its obligation to continue serving the debtor cooperative. In March 2002, the two cooperatives filed suit against one another regarding whether the one has an obligation to continue serving and paying the Authority on behalf of the other. That litigation remains pending.

Due to the uncertainty involving the ultimate outcome of the previously discussed unresolved lawsuits, the State has not recorded any liability for them in the accompanying financial statements.

b. Tobacco Settlement Revenue Management Authority

The Tobacco Settlement Revenue Management Authority (the Authority), a blended component unit and nonmajor governmental fund established in 2001, is a public body and an instrumentality of the State. State law transferred to the Authority all of the State's rights and interests under the Master Settlement Agreement (the MSA) and the Consent Decree and Final Judgment between all participating states and the participating tobacco manufacturers. These rights include the State of South Carolina's share of all tobacco settlement revenues (TSRs) actually received after June 30, 2001, or to be received in the future under the MSA.

The Authority issued asset-backed term bonds in 2001. The payment of such bonds is dependent on the receipt of TSRs. The amount of TSRs actually collected is dependent on many factors, including cigarette consumption and the continued financial capability of the original participating manufacturers. Such bonds are secured by, and payable solely from, TSRs and investment earnings pledged under the bond indenture and amounts established and held in accordance with the bond indenture. The term bonds are payable only from the Authority's assets. If the Authority has no assets, it will not pay any principal or interest on the bonds. The TSRs represent the Authority's only source of funds for payments on the bonds; the Authority has no taxing power.

Various parties have instituted litigation alleging, among other things, that the MSA violates certain provisions of federal and State laws. Certain of these actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. To date, no such lawsuits have been successful; but parties may continue to challenge the enforcement of the terms of the MSA in the future. In the event of an adverse court ruling, the Authority may not have adequate financial resources to make payment on the bonds.

Due to the significant uncertainties discussed above, the State considers TSRs measurable only when received in cash. Accordingly, the State's financial statements do not record a receivable for any TSRs that the Authority may receive in future years.

c. Federal Grants

The State receives significant federal grant and entitlement revenues. Compliance audits of federal programs may identify disallowed expenditures. Disallowances by federal program officials as a

result of these audits may become liabilities of the State. The State records a liability for pending disallowances if settlement is probable and the settlement amount is reasonably estimable. Otherwise, the liability is recorded only when the State and the federal government agree on reimbursement terms.

At June 30, 2002, the State had accrued \$9.679 million for pending disallowances because settlement was probable and the settlement amount was reasonably estimable. Of the \$9.679 million, \$6.075 million represented penalties related to the State's purported failure to implement a statewide Child Support System. (Also see information regarding litigation related to the Child Support System in part a of this note.)

Based on an analysis of historical data, however, the State believes that any additional disallowance reimbursements relating to the fiscal year ended June 30, 2002, or earlier years will not have a material impact on the State's financial statements.

d. Federal Housing and Urban Development Loan Guarantee Program

During 1994, Lexington County entered into a contract for participation in the Housing and Urban Development (HUD) Section 108 loan guarantee program. Under this program, HUD arranges a public offering of notes guaranteed by federal funds and lends the note proceeds to the program participant. The participant guarantees the loan with HUD Community Development Block Grant (CDBG) funds. Because the County did not receive CDBG funds directly from HUD, the State cosigned the HUD contract and pledged its future federal CDBG funds on behalf of the County. The County lent its loan proceeds to fund an economic development project.

During 1997, the funded project declared bankruptcy. Because the project will not make any further loan payments to the County, the County will not receive the funds it would have used to make the corresponding loan payments to HUD. Under the agreement, therefore, the State must use its federal CDBG funds to make the loan payments on behalf of the County to the extent that such funds are available. If the State does not receive CDBG funds in future years, the federal government is responsible for the payments to the note holders.

At June 30, 2002, \$3.230 million remained outstanding on the Lexington County loan. The payment terms require the State to repay this amount in two years at 8.0% interest. Accordingly, the State has recorded an intergovernmental payables liability in the governmental activities on the government-wide statement of net assets for the amount it owes HUD on this loan to be paid from federal CDBG funds.

e. Other Loan Guarantees

The South Carolina Education Assistance Authority, a major enterprise fund, guarantees student loans. At June 30, 2002, these loans totaled \$1.563 billion. The United States Department of Education reinsures 100.0% of losses under these guarantees for loans made prior to October 1, 1993;

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98.0% of losses for loans made on or after October 1, 1993, but before October 1, 1998; and 95.0% for loans made on or after October 1, 1998. If the loan default rate exceeds 5.0% of the loans in repayment status, however, the United States Department of Education decreases the reinsurance rate. The State's default rate during the fiscal year ended June 30, 2002, was less than 1.0%.

The nonmajor enterprise funds guarantee a portion of a mortgage debt of \$7.729 million.

f. Purchase Commitments

Discretely Presented Component Unit—Lottery Commission

At June 30, 2002, the Lottery Commission had a remaining commitment of \$28.350 million under a service contract with a term that extends through September 2007. The contract provides, among other things, services and equipment to operate the on-line lottery.

Discretely Presented Component Unit—Public Service Authority

At December 31, 2001, the Public Service Authority, a major discretely presented component unit and electric utility company, had outstanding minimum obligations under existing purchase contracts totaling \$543.793 million for coal. In addition, minimum obligations under purchased power contracts were: (a) approximately \$85.900 million and \$19.600 million at December 31, 2001, with remaining terms of thirty-three years and two years, respectively; and (b) approximately \$3.000 million with terms of one year or less beginning in 2002. Also, the Authority has commitments for nuclear fuel enrichment and fabrication contracts that are contingent upon the operating life of its nuclear unit. As of December 31, 2001, these commitments totaled approximately \$76.900 million over the next eight years.

The Authority has entered into a service agreement with a term extending through 2009 in the approximate amount of \$76.000 million. The agreement covers initial spare parts, parts and services for specified maintenance outages, and remote monitoring and diagnostics of the two turbine generators. The agreement can be cancelled after the Authority pays \$4.250 million for initial inspections for the generating units.

g. Commitments to Provide Grants and Other Financial Assistance

The South Carolina Transportation Infrastructure Bank, reported within the Local Government Infrastructure Fund (a major governmental fund), has agreements with various counties to provide financial assistance totaling \$1.538 billion for certain highway and transportation facilities projects. At June 30, 2002, the remaining

commitments for these agreements totaled \$1.231 billion.

At June 30, 2002, the Department of Commerce had outstanding commitments of \$114.760 million to provide funds to local governmental entities from various State governmental funds. These commitments included grants for water and wastewater infrastructure projects, airport construction projects, and rural infrastructure projects.

h. Discretely Presented Component Unit—Clean Air Act

The Public Service Authority, a major discretely presented component unit and electric utility company, endeavors to ensure that its facilities comply with applicable environmental regulations and standards. Congress has promulgated comprehensive amendments to the Clean Air Act, the most significant of which relate to acid precipitation and require specific reductions in sulfur dioxide and nitrogen oxide emissions. To meet monitoring requirements of the Act, the Authority installed continuous emissions monitoring equipment at a cost of \$5.200 million and upgraded the combustion systems on some of its boilers at a cost of \$8.020 million. The Authority also has signed agreements with a company to provide sulfur dioxide scrubbers to begin operating by June 2004. Once the Authority's facilities have met the performance standards, these agreements require the Authority to pay a service fee to the company, not to exceed \$13.500 million, in each of the subsequent fifteen years.

The United States Environmental Protection Agency has finalized regulations that require significant reductions in nitrogen oxide emissions. The Authority believes that its compliance cost, including capital costs, could approach approximately \$280.000 million by 2005 and that its annual operating costs associated with such compliance could approach \$10.000 million.

i. Discretely Presented Component Unit—Deregulation of Electric Utilities

The Public Service Authority, a major discretely presented component unit, currently is a regulated electric utility. The electric industry is increasingly competitive due to regulatory changes and market developments. As utilities move to a deregulated environment where rates are based on market forces, there may be costs that cannot be recovered by charging the market rate. Some proposed deregulation measures allow for recovery of some portion of these costs, but the ultimate regulatory treatment of such costs cannot be predicted.

The Authority has developed and is implementing a long-term strategic plan designed to position it to compete effectively in the changing competitive environment. Although the Authority is preparing for a deregulated market, it cannot predict the effects of increased competition on its operations and financial condition.

Notes to the Financial Statements

j. Discretely Presented Component Unit— Connector 2000 Association, Inc.

During its fiscal year ended December 31, 2001, the Connector 2000 Association, Inc., a major discretely presented component unit, opened the Southern Connector toll road to public traffic and began toll collections. Since commencing operations, the Southern Connector has experienced significantly lower traffic counts than those projected during the planning phase of the project. Because the Association pledged these toll

collections for debt service payments on its toll road revenue bonds, the Association's future debt service capability also is affected.

In early January 2003, Standard & Poor's downgraded the Association's toll road revenue bonds to junk status (B-minus rating) after the Association tapped into its Senior Debt Reserve fund in order to pay the interest due January 1, 2003, on one of the bond issues. According to the Association's bond attorney, the Association's use of reserve funds to meet its debt service obligation does not constitute a default under the bond indenture.